

NEW MEXICO
DEPARTMENT OF
WORKFORCE SOLUTIONS
Financial Statements
for the Year Ended
June 30, 2011,
and Independent
Auditor's Report

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Official Roster

Year Ended June 30, 2011

| Name | Title |
|----------------|---------------------------|
| Celina Bussey | Secretary |
| Sara Lister | Deputy Cabinet Secretary |
| Donna Trujillo | Chief Financial Officer |
| Aaron Hinds | Chief Information Officer |

Independent Auditor's Report

Celina Bussey, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and the major special revenue fund of New Mexico Department of Workforce Solutions (the Department) as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental and fiduciary funds, and respective budgetary comparisons for the major enterprise and the non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Department's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the respective financial position of the governmental activities, business-type activities, each major fund, the budgetary comparisons for the general fund and other major special revenue fund and the aggregate remaining fund information of the Department as of June 30, 2011, and the changes in financial position and cash flows, where applicable, of those activities and funds. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2011, or the respective changes in the financial position and cash flows, where applicable, thereof, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental and fiduciary fund of the Department as of June 30, 2011, and the respective changes in financial position thereof, and the respective budgetary comparisons for the major enterprise and all non-major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 12 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual fund financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedules listed as other supplementary information in the table of contents (Schedules 1 through 5) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Albuquerque, New Mexico
December 14, 2011

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2011

The Management's Discussion and Analysis of the New Mexico Department of Workforce Solutions (the Department) is designed to assist the reader in focusing on significant financial issues, provide an overview of the Department's financial activity, identify changes in the Department's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the Department's financial statements and notes which follow this section.

The Department's annual report consists of a series of financial exhibits and accompanying notes. The Statement of Net Assets (Exhibit 1) and the Statement of Activities (Exhibit 2) provide information on the activities of the Department in the aggregate and present a longer-term view of the Department's finances. For governmental activities, these statements describe how services were financed in the short-term and what remains for future spending by the Department. Fund financial statements also report the Department's operations in more detail than the government-wide financial statements by providing additional information about the Department's major funds. A description of the Department's major funds is contained in Note 1 to the financial statements. The remaining statements provide financial information about activities for which the Department acts as an agent, primarily in the collection of funds related to wage claim assignments on employers that the Department's Labor Relations Division makes on behalf of employees and laborers.

Financial Highlights

Table A-1
Comparative Statement of Total Net Assets

| | <u>FY 2011</u> | <u>FY 2010</u> | <u>\$ Change</u> | <u>% Change</u> |
|--------------------------------|-----------------------|--------------------|---------------------|-----------------|
| Assets: | | | | |
| Current and other assets | \$ 259,753,111 | 248,028,854 | 11,724,257 | 5% |
| capital and non-current assets | 18,836,099 | 6,280,011 | 12,556,088 | 200% |
| Total Assets | 278,589,210 | 254,308,865 | 24,280,345 | 10% |
| Liabilities: | | | | |
| Current Liabilities | 60,346,303 | 73,012,407 | (12,666,104) | -17% |
| Long Term Obligations | - | - | - | 0% |
| Total Liabilities | 60,346,303 | 73,012,407 | (12,666,104) | -17% |
| Net Assets: | | | | |
| Invested in capital assets | 18,836,099 | 6,280,011 | 12,556,088 | 200% |
| Restricted | 199,912,913 | 167,856,070 | 32,056,843 | 19% |
| Unrestricted | (506,105) | 7,160,377 | (7,666,482) | -107% |
| Total Net Assets | \$ 218,242,907 | 181,296,458 | 36,946,449 | 20% |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2011 - continued

Financial Highlights - continued

Table A-2
Comparative Statement of Activities

| | <u>FY 2011</u> | <u>FY 2010</u> | <u>\$ Change</u> | <u>% Change</u> |
|--|----------------|----------------|------------------|-----------------|
| Revenue: | | | | |
| <u>Program Revenues by Major Sources</u> | | | | |
| Governmental Activities: | | | | |
| Employment Services: | | | | |
| Charges for Services | \$ 2,947,702 | 4,746,483 | (1,798,781) | -38% |
| Operating Grants | 68,693,117 | 51,087,952 | 17,605,165 | 35% |
| Total Gov. Activities Revenue | 71,640,819 | 55,834,435 | 15,806,384 | 28% |
| Business-Type Activities: | | | | |
| Unemployment Activities: | | | | |
| Charges for Services | 207,140,449 | 188,465,204 | 18,675,245 | 10% |
| Operating Grants | 437,717,976 | 400,426,059 | 37,291,917 | 9% |
| Total Business-type Activities Revenue | 644,858,425 | 588,891,263 | 55,967,162 | 10% |
| Total Program Revenues by Major Sources | 716,499,244 | 644,725,698 | 71,773,546 | 11% |
| <u>General Revenues by Major Source</u> | | | | |
| Governmental Activities | | | | |
| State Appropriations | 4,782,300 | 7,317,900 | (2,535,600) | -35% |
| Investment Earnings | - | 686 | (686) | -100% |
| Other-Transfers in | 691,500 | 944,925 | (253,425) | -27% |
| Other-Transfers Out | (4,926,722) | (1,500,000) | (3,426,722) | 229% |
| Reversions to State General Fund | - | (489,600) | 489,600 | -100% |
| Total Governmental Activities Revenue | 547,078 | 6,273,911 | (5,726,833) | -91% |
| Business-type Activities: | | | | |
| Other Revenue | | | | |
| Transfers in | 117,803,140 | - | 117,803,140 | - |
| Other-Transfers Out | - | (40,926,221) | 40,926,221 | -100% |
| Investment Earnings | 8,010,367 | 12,426,676 | (4,416,309) | -36% |
| Total Business-type Activities Revenues | 125,813,507 | (28,499,545) | 154,313,052 | -541% |
| Total General Revenues by Major Sources | 126,360,585 | (22,225,634) | 148,586,219 | -669% |
| Total Revenues by Major Sources | 842,859,829 | 622,500,064 | 220,359,765 | 35% |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2011 - continued

Financial Highlights - continued

Revenue

- The most significant change in revenue was related to the transfer-in of the State Unemployment Trust Fund pursuant to House Bill 144 (discussed in the Other Operating Highlights section), which, among other things, called for the abolishment of the Fund. \$117.8 million was transferred from the State Investment Council into the Unemployment Trust Fund maintained by the US Treasury.
- Implementation of the unemployment insurance schedule 1 (up from schedule 0), also pursuant to HB144, did increase contributions to the fund. Contributions increased from 188.5 to 207.1 million in 2011 or about 10%.
- Appropriations from the State General Fund fell from \$7,317,900 to \$4,782,300 or 35% due to revenue shortfalls experienced within the State General Fund.
- Other revenue sources remained fairly constant although the Department continues to experience an overall decline in many federal grants.

Table A-2b
Comparative Statement of Activities

| | <u>FY 2011</u> | <u>FY 2010</u> | <u>\$ Change</u> | <u>% Change</u> |
|--|----------------|----------------|------------------|-----------------|
| Expenses: | | | | |
| <u>Program Expenses by Major Sources</u> | | | | |
| Governmental Activities: | | | | |
| Governmental | \$ 63,029,522 | 61,371,790 | 1,657,732 | 3% |
| Total Governmental Activities Expenses | 63,029,522 | 61,371,790 | 1,657,732 | 3% |
| Business-type Activities: | | | | |
| Unemployment Services | 742,883,858 | 781,493,577 | (38,609,719) | -5% |
| Total Business-type Activities Expenses | 742,883,858 | 781,493,577 | (38,609,719) | -5% |
| Total Program Expenses by Major Sources | \$ 805,913,380 | 842,865,367 | (36,951,987) | -4% |

Expenses

The cost of business-type activities related to unemployment services actually decreased in fiscal year 2011. The Department paid out about 5% less unemployment benefits in fiscal year 2011 than in 2010. The costs for operations did rise overall from 61,371,791 to 63,029,524 or about 3%. This was due to the administration of American Recovery and Reinvestment Act (ARRA) funds which are being used to implement a new tax and claims system and also contributes to operational activity. The Department would have actually recognized a decrease in operational expenses had the ARRA funds (discussed in the Other Operating Highlights section) not been available.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2011 - continued

Financial Highlights - continued

Table A-2c
Comparative Statement of Activities

| | FY 2011 | FY 2010 | \$ Change | % Change |
|--------------------------------|-----------------------|----------------------|--------------------|--------------|
| <u>Change in Net Assets</u> | | | | |
| Governmental Activities | | | | |
| Beginning Net Assets | \$ 13,440,388 | 12,703,832 | 736,556 | 6% |
| Restatement | 3,944,271 | - | 3,944,271 | 100% |
| Beginning Net Assets, Restated | 17,384,659 | - | 17,384,659 | 100% |
| Change in Net Assets | <u>9,158,375</u> | <u>736,556</u> | <u>8,421,819</u> | <u>1143%</u> |
| Ending Net Assets | 26,543,034 | 13,440,388 | 13,102,646 | 97% |
| Business-type Activities | | | | |
| Beginning Net Assets | 167,856,070 | 388,957,929 | (221,101,859) | -57% |
| Restatement | (3,944,271) | - | (3,944,271) | -100% |
| Beginning Net Assets, Restated | 163,911,799 | - | 163,911,799 | 100% |
| Change in Net Assets | <u>27,788,074</u> | <u>(221,101,859)</u> | <u>248,889,933</u> | <u>-113%</u> |
| Ending Net Assets | <u>191,699,873</u> | <u>167,856,070</u> | <u>23,843,803</u> | <u>14%</u> |
| Ending Net Assets | <u>\$ 218,242,907</u> | <u>181,296,458</u> | <u>36,946,449</u> | <u>20%</u> |

Total Net Assets

The total net assets or financial position of the Department improved by \$36,946,449, a 20% increase over fiscal year 2010. Net assets attributable to government activities increased by \$13,102,646, for a 97% increase over the prior fiscal year. Net assets attributable to business-type activities increased by \$23,843,803, for a 14% increase over the prior year.

The increase in net assets is due to:

- General decrease in expenditures as the Department continued to cut costs and maintain level budget activity; in addition to
- Increased revenue from the transfer in of the State Unemployment Trust Fund, the schedule change from 0 to 1 for unemployment contributions, and the available ARRA funding and above base funding recognized by the Department.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2011 - continued

Financial Highlights - continued

Capital Assets

| | June 30, 2010 | FY10 Additions | FY10 Disposals | June 30, 2011 |
|---------------------------------------|---------------------|-------------------|-------------------|--------------------|
| Office Improvements | \$ 1,177,863 | 1,742,181 | - | 2,920,044 |
| Vehicles | - | 302,074 | | 302,074 |
| Office Equipment | 2,208,753 | - | (34,030) | 2,174,723 |
| Furniture | 347,844 | 518,247 | - | 866,091 |
| Computer Equipment | 1,543,660 | 200,784 | - | 1,744,444 |
| WIP | 4,154,709 | 10,283,712 | - | 14,438,421 |
| Total Acquired Value | 9,432,829 | 13,046,998 | (34,030) | 22,445,797 |
| Accumulated depreciation: | | | | |
| Office Improvements | (333,137) | (132,133) | - | (465,270) |
| Vehicles | - | (15,104) | - | (15,104) |
| Office Equipment | (1,998,987) | (36,854) | 34,030 | (2,001,811) |
| Furniture | (355,211) | (25,912) | - | (381,123) |
| Computer Equipment | (465,483) | (280,907) | - | (746,390) |
| Total Accumulated Depreciation | (3,152,818) | (490,910) | 34,030 | (3,609,698) |
| Net Total | \$ 6,280,011 | 12,556,088 | - | 18,836,099 |

Increases occurred in Computer Equipment, Office Improvements and Furniture and Fixtures as the Department continued to maximize resources available to support the high level of unemployment. Purchases included additional work areas as well as reengineering existing workspace to facilitate information and resource flow.

The Work in Process additions include the accumulation of costs associated with the planned implementation of a new tax and claims system (U-Facts). The system will integrate information that is currently housed separately to provide improved integrity, reporting capabilities and maintenance. U-Facts is scheduled to "go live" in fiscal 2012 at which time the costs of the project will be moved from Work-in-Process to Information Systems and depreciated per Department policy. (Note1.)

The Department purchased a mobile unit with funds granted through a green jobs initiative. The unit is equipped with workspace, computers, monitors, and projectors. The Department has utilized the vehicle to attend job fairs and green industry conferences within the state. In addition, the Department plans to use the vehicle to visit high schools and smaller communities that may have restricted access to services.

Management's Discussion and Analysis
Year Ended June 30, 2011

Financial Highlights - continued

Debt

The Department has no long-term debt.

General Fund Budgetary Highlights

The Department's overall General Fund Appropriations decreased by \$3,535,600 in FY 2011 from FY 2010.

In FY 2011, like FY 2010, the Department received a transfer from the Workers Compensation Fund totaling \$561,900 for the Labor Relations Division. This amount is included in Other Transfers In for FY 2011.

The total original operating budget for the Department was \$50,774,500. Budget adjustments were significant during fiscal year 2011. A total of \$21,475,968 additional funds were brought into the budget. The increases were funded with Unemployment Insurance "above base" funding and Emergency Unemployment Contingency funding. Above base and contingency increases are modifications to the UI base grant through the U.S. Department of Labor, which are based on the activity that is reported by the Department, quarterly. As the Department continues to see high unemployment benefit payments, the increases to base grants should continue— however they are not guaranteed and therefore are not included in the original operating budget requested. As they do become available, spend plans are prepared and based on these plans, the budget is adjusted pursuant to NM State Budget Division compliance requirements.

Changes in Federal Funding

The Department's federal revenues did increase in FY 2011 due to the supplemental funding discussed above and continuing ARRA funding, however, other Department federal revenues continue to experience declines in funding from its federal grant awards. The Department experienced an overall decline in federal awards for employment services and unemployment insurance administration base from the United States Department of Labor as well as most other grantors. The Workforce Investment Act funds realized a decrease in the amount of funding available as well as in the amount that is allowed to be used by the Department to administer the program.

Reed Act Funding

The Department continued to supplant funding from contracts and federal grants with appropriations from the March 14, 2002 distribution of Reed Act funds it received from the federal government in its operating budget. Distributions of Reed Act funds are infrequent in occurrence, but are made periodically by the federal government based on certain national economic indicators. These funds may be used for the payment of unemployment compensation benefits, the administration of the State's unemployment compensation law, or for the operation of public employment service offices. In fiscal year 2011, the Department expended \$3,478,927.

Contract with the Southwest Area Workforce Development Board

The Department also contracted with the Southwest Area Workforce Development Board (SAWDB) to assist out-of-work adults and individuals who may have lost jobs to layoffs and plant closings to find training in new fields that are in demand by employers so that they may become employable again. These services are also funded through the Workforce Investment Act grant, which the SAWDB receives to provide job training opportunities to eligible individuals in the southwest quadrant of the State.

Management's Discussion and Analysis
Year Ended June 30, 2011

Other Operating Highlights

American Recovery and Reinvestment Act

New Mexico Department of Workforce Solutions was awarded over \$66 million in funding from the America Reinvestment and Recovery Act (ARRA) of 2009. In FY10 over \$10.8 million in Workforce Investment Act funds were allocated to four local workforce development boards and the state administrative entity. \$39 million of UI Modernization funds was appropriated during the legislative session and have been approved by the U.S. Department of Labor (USDOL) for enhancements to the UI program, facility upgrades and phased implementation of a the new UI Claims and Tax system. \$3.2 million in Wagner-Peyser federal funds were allocated to provide re-employment services for Unemployment Insurance (UI) claimants and other job seekers.

The ARRA Extended Benefit (EB) program provides an additional 13 to 20 weeks of UI benefits to unemployed individuals. The ARRA funds also encompass a new 100% federally funded temporary Federal Additional Compensation Program (FAC), which provided a \$25 weekly increase in regular unemployment checks.

The New Mexico Department of Workforce Solutions has fully approved Administrative Spend Plans in place to use all Department ARRA funding. The New Mexico Office of Recovery and Reinvestment serves in an oversight capacity and requires that state agencies submit strategic plans before any funds may be spent.

Unemployment Insurance Compensation Fund

The Department has projected a cash shortfall in the Unemployment Trust Fund held with the U.S. Treasury. Unemployment Compensation (UC) is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA). Federal laws and regulations provide broad guidelines on state unemployment taxes. States levy their own payroll taxes on employers to fund regular UC benefits and the state share of the Extended Benefit (EB) program.

The U.S. Department of Labor (DOL) suggests that, to be minimally solvent, a state's reserve balance should provide for one year's projected benefit payment needs on the basis of the highest levels of benefit payments experienced by the state over the last twenty years. Using these guidelines, the Department has determined that a cash shortage in the fund will be realized in the first quarter of the 2013 fiscal year, assuming current conditions. This outlook is more positive than the original insolvency projection of first quarter 2012, made at the end of last fiscal year.

UC benefits are an entitlement, although the program is financed by a dedicated tax imposed on employers, and not by general revenues. The state remains legally required to continue paying benefits even in times of trust fund insolvency -which it does by obtaining loans through the federal program or with other financing options.

House Bill 144, passed by the 50th Legislative First Session of 2010, contains changes to the unemployment insurance program, which are intended to mitigate the projected decline in reserves of the UTF. Among its provisions are the following:

Management's Discussion and Analysis
Year Ended June 30, 2011

Other Operating Highlights – continued

- Discontinuing the temporary increase in the weekly benefit amount paid to claimants. Effective July 1, 2010, the Weekly Benefit Amount will be reduced from 60% to 53.5% of the average weekly wages of claimants.
- Implementing unemployment insurance schedule 1, which would increase contributions by employers into the fund. The temporary schedule will be effective from July 1, 2010 through December 31, 2011.
- Abolishing the SUTF and transferring the balance of funds in it to the UTF for the purpose of paying benefits to claimants. Effective July 1, 2010, the SUTF will be discontinued and the fund's balance will be transferred to the UTF.
- With the abolishment of the SUTF effective July 1, 2010, all unemployment tax contributions from employers have gone directly to the UTF.

By taking these actions, the Department may avoid having to obtain an advance from the federal government to pay unemployment benefits, which it would have to pay back with interest. The current projections are better by about 12 months, than was projected at this same time last year

Economic Outlook

New Mexico's seasonally adjusted unemployment rate was 6.6 percent in October 2011, unchanged from September but down from 8.6 percent a year ago. The national unemployment rate dropped to 9.0 percent.

The rate of over-the-year job growth, comparing October 2011 with October 2010, was 0.6 percent, representing an increase of 5,000 jobs. This was the fifth straight month of over-the-year job growth, following a 32-month period of losses.

Analysis of the seasonally adjusted data shows that employment recently peaked in February 2008 and then declined over an almost three-year period through December 2010. From peak to trough, New Mexico lost almost 53,000 jobs from effects of the national recession. October 2011 data indicate that the state has regained about 9,000 jobs.

The most current survey data show more new jobs coming from educational & health services than from any other industry. This fast-growing group of firms added 6,900 jobs to its year-ago total, growing 5.7 percent. As the largest private-sector industry, educational & health services' boost to the employment prospects for the state is huge in overall impact. The health care industry in particular is a stabilizer in an otherwise uncertain economy.

Retail trade has made inroads on previous losses to now report 2,700 additional jobs, while wholesale trade posted gains of 1,500 jobs. The mining industry continues to do well, up 1,800 jobs after an earlier period of losses that ended in 2010.

The financial activities industry also posted a gain of 1,800 jobs, following three years of losses that ended earlier this year. Gains were likewise reported in leisure & hospitality, up 500 jobs, and manufacturing, up 300 jobs.

Management's Discussion and Analysis
Year Ended June 30, 2011

Economic Outlook - continued

The remaining five private-sector industries each recorded declining employment. Construction was down 4,100 jobs over the year. Employment in the professional & business services industry was down 1,000 jobs from last year.

The information industry reported employment that was down 500 jobs from last year's total, continuing its recent trend. The transportation, warehousing & utilities industry lost 300 jobs, and the miscellaneous other services category lost 100 jobs.

Government employment registered a net loss of 4,500 jobs from the year-ago total, with decreases reported for all three components. State government entities shed 2,900 jobs, while the local and federal levels trimmed 1,100 and 500, respectively.

Contacting the Agency's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators and investors and creditors with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Sara Lister, Deputy Secretary
New Mexico Department of Workforce Solutions
Administrative Services Division
P.O. Box 1928
Albuquerque, New Mexico 87103

FINANCIAL STATEMENTS

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Net Assets

| AS OF JUNE 30, 2011 | Governmental Activities | Business-type Activities | Total |
|---|-----------------------------|-----------------------------|---------------------------|
| ASSETS: | | | |
| Cash and cash equivalents | \$ - | 1,230,332 | 1,230,332 |
| Cash held with U.S. Treasury | - | 178,141,190 | 178,141,190 |
| Investment in State General Fund Investment Pool | 1,668,902 | - | 1,668,902 |
| Due from other state agencies | 26,564 | - | 26,564 |
| Due from federal government | 4,957,966 | 1,120,685 | 6,078,651 |
| Due from governmental funds | - | 365,293 | 365,293 |
| Due from enterprise funds | 12,555,414 | - | 12,555,414 |
| Accounts receivable, net of allowance for uncollectibles | 389,431 | 59,297,334 | 59,686,765 |
| Capital assets, net | <u>18,836,099</u> | <u>-</u> | <u>18,836,099</u> |
| TOTAL ASSETS | \$ <u>38,434,376</u> | <u>240,154,834</u> | <u>278,589,210</u> |
| LIABILITIES: | | | |
| Cash overdraft | \$ - | 1,395,962 | 1,395,962 |
| Accounts payable | 4,477,675 | - | 4,477,675 |
| Accrued payroll and benefits | 911,131 | - | 911,131 |
| Benefits payable | - | 3,118,733 | 3,118,733 |
| Due to other state agencies | 4,926,722 | 132,252 | 5,058,974 |
| Due to governmental funds | - | 12,555,414 | 12,555,414 |
| Due to enterprise funds | 365,293 | - | 365,293 |
| Other accrued liabilities | 35,173 | - | 35,173 |
| Deferred revenue | - | 31,252,600 | 31,252,600 |
| Compensated absences, due within one year | <u>1,175,348</u> | <u>-</u> | <u>1,175,348</u> |
| TOTAL LIABILITIES | <u>11,891,342</u> | <u>48,454,961</u> | <u>60,346,303</u> |
| NET ASSETS: | | | |
| Invested in capital assets | 18,836,099 | - | 18,836,099 |
| Restricted for: | | | |
| Unemployment insurance trust | - | 191,699,873 | 191,699,873 |
| Special revenue funds | 8,213,040 | - | 8,213,040 |
| Unrestricted | <u>(506,105)</u> | <u>-</u> | <u>(506,105)</u> |
| TOTAL NET ASSETS | <u>26,543,034</u> | <u>191,699,873</u> | <u>218,242,907</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>38,434,376</u> | <u>240,154,834</u> | <u>278,589,210</u> |

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

Statement of Activities

YEAR ENDED JUNE 30, 2011

| Functions/Programs | Expenses | Program Revenue | | Net (Expenses) Revenue and Changes in Net Assets | | |
|--|------------------------------|---------------------------|---------------------------|--|----------------------------|----------------------------|
| | | Charges for Services | Operating Grants | Governmental Activities | Business-type Activities | Total |
| GOVERNMENTAL ACTIVITIES: | | | | | | |
| Workforce transition services | \$ 18,135,980 | 1,380,708 | 16,351,264 | (404,008) | - | (404,008) |
| Labor relations | 3,594,604 | 1,513,663 | 33,800 | (2,047,141) | - | (2,047,141) |
| Workforce technology | 4,645,385 | - | 3,108,490 | (1,536,895) | - | (1,536,895) |
| Business services | 4,822,071 | - | 5,039,096 | 217,025 | - | 217,025 |
| Program support | 16,615,860 | 53,331 | 16,062,841 | (499,688) | - | (499,688) |
| Other workforce initiatives | <u>15,215,622</u> | <u>-</u> | <u>28,097,626</u> | <u>12,882,004</u> | <u>-</u> | <u>12,882,004</u> |
| TOTAL GOVERNMENTAL ACTIVITIES | 63,029,522 | 2,947,702 | 68,693,117 | 8,611,297 | - | 8,611,297 |
| BUSINESS-TYPE ACTIVITIES: | | | | | | |
| Unemployment services | <u>742,883,858</u> | <u>207,140,449</u> | <u>437,717,976</u> | <u>-</u> | <u>(98,025,433)</u> | <u>(98,025,433)</u> |
| TOTAL BUSINESS-TYPE ACTIVITIES | <u>742,883,858</u> | <u>207,140,449</u> | <u>437,717,976</u> | <u>-</u> | <u>(98,025,433)</u> | <u>(98,025,433)</u> |
| TOTAL ACTIVITIES | \$ <u>805,913,380</u> | <u>210,088,151</u> | <u>506,411,093</u> | 8,611,297 | (98,025,433) | (89,414,136) |
| GENERAL REVENUES AND TRANSFERS: | | | | | | |
| Investment earnings | | | | - | 8,010,367 | 8,010,367 |
| Transfers in - State General Fund appropriations | | | | 4,782,300 | - | 4,782,300 |
| Transfers in - Other | | | | 691,500 | 117,803,140 | 118,494,640 |
| Transfers out - Other | | | | <u>(4,926,722)</u> | <u>-</u> | <u>(4,926,722)</u> |
| TOTAL GENERAL REVENUES AND TRANSFERS | | | | <u>547,078</u> | <u>125,813,507</u> | <u>126,360,585</u> |
| CHANGE IN NET ASSETS | | | | 9,158,375 | 27,788,074 | 36,946,449 |
| BEGINNING NET ASSETS | | | | <u>13,440,388</u> | <u>167,856,070</u> | <u>181,296,458</u> |
| RESTATEMENT | | | | <u>3,944,271</u> | <u>(3,944,271)</u> | <u>-</u> |
| BEGINNING NET ASSETS, AS RESTATED | | | | <u>17,384,659</u> | <u>163,911,799</u> | <u>181,296,458</u> |
| ENDING NET ASSETS | | | | \$ <u>26,543,034</u> | <u>191,699,873</u> | <u>218,242,907</u> |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2011

| | 32900 General Fund | 89000 ARRA | Other Governmental Funds | Total Governmental |
|--|-----------------------------|-------------------------|--------------------------------|--------------------------|
| ASSETS: | | | | |
| Investment in State General Fund Investment Pool | \$ - | - | 4,549,781 | 4,549,781 |
| Due from other funds | 266,330 | - | 3,838,337 | 4,104,667 |
| Due from enterprise funds | 12,555,414 | - | - | 12,555,414 |
| Due from other state agencies | 26,523 | - | 41 | 26,564 |
| Due from federal government | 2,418,670 | 2,539,296 | - | 4,957,966 |
| Other receivables | <u>386,532</u> | <u>2,899</u> | - | <u>389,431</u> |
| TOTAL ASSETS | \$ <u>15,653,469</u> | <u>2,542,195</u> | <u>8,388,159</u> | <u>26,583,823</u> |
| LIABILITIES: | | | | |
| Due to State General Fund Investment Pool (overdraft) | \$ 2,605,728 | 275,151 | - | 2,880,879 |
| Accounts payable | 2,378,658 | 2,099,017 | - | 4,477,675 |
| Accrued payroll and benefits | 849,807 | 61,324 | - | 911,131 |
| Due to other funds | 3,838,337 | 91,211 | 175,119 | 4,104,667 |
| Due to enterprise funds | 365,293 | - | - | 365,293 |
| Other accrued liabilities | 19,681 | 15,492 | - | 35,173 |
| Due to other state agencies | <u>4,926,722</u> | - | - | <u>4,926,722</u> |
| TOTAL LIABILITIES | <u>14,984,226</u> | <u>2,542,195</u> | <u>175,119</u> | <u>17,701,540</u> |
| FUND BALANCES: | | | | |
| Restricted for: | | | | |
| Public Works Apprenticeship & Training | - | - | 3,005,857 | 3,005,857 |
| Special Revenue Funds | - | - | 5,207,183 | 5,207,183 |
| Assigned | <u>669,243</u> | - | - | <u>669,243</u> |
| TOTAL FUND BALANCES | <u>669,243</u> | <u>-</u> | <u>8,213,040</u> | <u>8,882,283</u> |
| TOTAL LIABILITIES AND FUND BALANCES | \$ <u>15,653,469</u> | <u>2,542,195</u> | <u>8,388,159</u> | <u>26,583,823</u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

AS OF JUNE 30, 2011

| | |
|--|----------------------|
| Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet) | \$ 8,882,283 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | |
| Capital assets total acquisition value | 22,445,797 |
| Total accumulated depreciation | <u>(3,609,698)</u> |
| Total capital assets, net | 18,836,099 |
| Long-term and other liabilities at year end consist of: | |
| Compensated absences payable | <u>(1,175,348)</u> |
| Total long-term and other liabilities | <u>(1,175,348)</u> |
| Net assets of governmental activities (Statement of Net Assets) | \$ <u>26,543,034</u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds

YEAR ENDED JUNE 30, 2011

| | 32900 | 89000 | Other | Total |
|--|--------------------|-------------------|------------------|--------------------|
| | General | ARRA | Governmental | Governmental |
| | Fund | | Funds | |
| REVENUES: | | | | |
| Interest on deposit/investments | \$ - | - | 1,040 | 1,040 |
| Licenses and permits | - | - | 406,100 | 406,100 |
| Federal grant revenue | 45,157,898 | 23,535,219 | - | 68,693,117 |
| Penalties and interest | - | - | 1,419,614 | 1,419,614 |
| Public Works Apprenticeship and Training | - | - | 1,014,948 | 1,014,948 |
| Miscellaneous revenue | <u>60,421</u> | <u>-</u> | <u>-</u> | <u>60,421</u> |
| TOTAL REVENUES | <u>45,218,319</u> | <u>23,535,219</u> | <u>2,841,702</u> | <u>71,595,240</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Workforce transition services | 17,803,174 | 2,291,599 | - | 20,094,773 |
| Labor relations | 3,587,890 | - | - | 3,587,890 |
| Workforce technology | 4,211,028 | 7,889,609 | - | 12,100,637 |
| Business services | 4,804,085 | 2,624,375 | - | 7,428,460 |
| Program support | 16,458,553 | - | - | 16,458,553 |
| Other workforce initiatives | 2,919,809 | - | - | 2,919,809 |
| Capital outlay | <u>2,317,362</u> | <u>10,729,636</u> | <u>-</u> | <u>13,046,998</u> |
| TOTAL EXPENDITURES | <u>52,101,901</u> | <u>23,535,219</u> | <u>-</u> | <u>75,637,120</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(6,883,582)</u> | <u>-</u> | <u>2,841,702</u> | <u>(4,041,880)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| State General Fund appropriation | 4,782,300 | - | - | 4,782,300 |
| Transfers in: | | | | |
| Interfund | 46,940 | - | - | 46,940 |
| Other | 691,500 | - | - | 691,500 |
| Transfers out: | | | | |
| Interfund | - | - | (46,940) | (46,940) |
| Other | <u>(4,926,722)</u> | <u>-</u> | <u>-</u> | <u>(4,926,722)</u> |
| NET OTHER FINANCING SOURCES (USES) | <u>594,018</u> | <u>-</u> | <u>(46,940)</u> | <u>547,078</u> |
| NET CHANGE IN FUND BALANCES | <u>(6,289,564)</u> | <u>-</u> | <u>2,794,762</u> | <u>(3,494,802)</u> |
| BEGINNING FUND BALANCES | 3,014,536 | - | 5,418,278 | 8,432,814 |
| FUND BALANCE RESTATEMENT | <u>3,944,271</u> | <u>-</u> | <u>-</u> | <u>3,944,271</u> |
| BEGINNING FUND BALANCES, RESTATED | <u>6,958,807</u> | <u>-</u> | <u>5,418,278</u> | <u>12,377,085</u> |
| ENDING FUND BALANCES | <u>\$ 669,243</u> | <u>-</u> | <u>8,213,040</u> | <u>8,882,283</u> |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities

YEAR ENDED JUNE 30, 2011

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (3,494,802)

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 and reported as depreciation expense. In the current period, these amounts were:

| | |
|--|---------------------|
| Capital outlay | 13,046,998 |
| Depreciation expense | (490,910) |
| Change in compensated absence balance not recorded in governmental funds | <u>97,089</u> |
| Change in net assets of governmental activities (Statement of Activities) | \$ <u>9,158,375</u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Modified Accrual Basis)

YEAR ENDED JUNE 30, 2011

| | GENERAL FUND - TOTAL | | | |
|--|----------------------|-------------------|-------------------|--|
| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
| | Original | Final | | |
| P-775 WORKFORCE TRANSITION SERVICES | | | | |
| REVENUES: | | | | |
| Federal funds | \$ 12,816,300 | 16,697,313 | 16,351,264 | (346,049) |
| General funds | 1,699,000 | 1,699,000 | 1,699,000 | - |
| Other State funds | 700,000 | 700,000 | - | (700,000) |
| Inter-agency transfers | 1,467,300 | 1,298,846 | - | (1,298,846) |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ 16,682,600 | 20,395,159 | 18,050,264 | (2,344,895) |
| P-775 WORKFORCE TRANSITION SERVICES | | | | |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ 13,351,200 | 14,649,493 | 14,189,832 | 459,661 |
| Contractual services | 851,100 | 1,350,240 | 914,335 | 435,905 |
| Other costs | 2,480,300 | 4,395,426 | 2,996,742 | 1,398,684 |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ 16,682,600 | 20,395,159 | 18,100,909 | 2,294,250 |
| P-776 LABOR RELATIONS | | | | |
| REVENUES: | | | | |
| Federal funds | \$ 250,000 | 416,437 | 87,830 | (328,607) |
| General funds | 1,354,900 | 1,354,900 | 1,354,900 | - |
| Other State funds | - | - | - | - |
| Inter-agency transfers | 1,768,700 | 2,155,489 | 691,500 | (1,463,989) |
| TOTAL REVENUES | \$ 3,373,600 | 3,926,826 | 2,134,230 | (1,792,596) |
| P-776 LABOR RELATIONS | | | | |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ 2,108,700 | 2,331,900 | 2,207,290 | 124,610 |
| Contractual services | 11,500 | 36,200 | 36,200 | - |
| Other costs | 972,400 | 1,558,726 | 1,351,114 | 207,612 |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ 3,092,600 | 3,926,826 | 3,594,604 | 332,222 |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Major Governmental Funds -

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

GENERAL FUND - TOTAL - continued

| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
|-----------------------------------|----------------------------|-------------------------|-------------------------|--|
| | Original | Final | | |
| P-777 WORKFORCE TECHNOLOGY | | | | |
| REVENUES: | | | | |
| Federal funds | \$ 3,176,600 | 5,458,400 | 3,108,490 | (2,349,910) |
| General funds | 1,232,100 | 1,232,100 | 1,232,100 | - |
| Other State funds | - | - | - | - |
| Inter-agency transfers | 75,000 | 58,600 | - | (58,600) |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ <u>4,483,700</u> | <u>6,749,100</u> | <u>4,340,590</u> | <u>(2,408,510)</u> |
| P-777 WORKFORCE TECHNOLOGY | | | | |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ 2,779,100 | 3,082,930 | 2,501,267 | 581,663 |
| Contractual services | 804,700 | 2,058,915 | 876,538 | 1,182,377 |
| Other costs | 899,900 | 1,607,255 | 962,785 | 644,470 |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ <u>4,483,700</u> | <u>6,749,100</u> | <u>4,340,590</u> | <u>2,408,510</u> |
| P-778 BUSINESS SERVICES | | | | |
| REVENUES: | | | | |
| Federal funds | \$ 4,962,800 | 6,212,330 | 5,039,096 | (1,173,234) |
| General funds | 3,100 | 3,100 | 3,100 | - |
| Other State funds | - | - | - | - |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ <u>4,965,900</u> | <u>6,215,430</u> | <u>5,042,196</u> | <u>(1,173,234)</u> |
| P-778 BUSINESS SERVICES | | | | |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ 1,664,300 | 1,888,800 | 1,385,465 | 503,335 |
| Contractual services | 283,600 | 283,600 | 57,131 | 226,469 |
| Other costs | 3,018,000 | 4,043,030 | 3,261,745 | 781,285 |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ <u>4,965,900</u> | <u>6,215,430</u> | <u>4,704,341</u> | <u>1,511,089</u> |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

| | GENERAL FUND - TOTAL - continued | | | |
|------------------------------------|----------------------------------|-------------------|-------------------|--|
| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
| | Original | Final | | |
| P-779 PROGRAM SUPPORT | | | | |
| REVENUES: | | | | |
| Federal funds | \$ 18,507,300 | 20,779,046 | 16,062,841 | (4,716,205) |
| General funds | 493,200 | 493,200 | 493,200 | - |
| Other State funds | - | - | 7,750 | 7,750 |
| Inter-agency transfers | 1,268,200 | 1,242,500 | 45,581 | (1,196,919) |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ 20,268,700 | 22,514,746 | 16,609,372 | (5,905,374) |
| P-779 PROGRAM SUPPORT | | | | |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ 6,160,900 | 6,330,255 | 4,669,297 | 1,660,958 |
| Contractual services | 1,169,300 | 1,219,300 | 671,925 | 547,375 |
| Other costs | 12,938,500 | 14,965,191 | 11,358,086 | 3,607,105 |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ 20,268,700 | 22,514,746 | 16,699,308 | 5,815,438 |
| OTHER WORKFORCE INITIATIVES | | | | |
| REVENUES: | | | | |
| Federal funds | \$ 14,895,720 | 16,595,720 | 4,562,408 | (12,033,312) |
| General funds | - | - | - | - |
| Other State funds | - | - | - | - |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ 14,895,720 | 16,595,720 | 4,562,408 | (12,033,312) |
| OTHER WORKFORCE INITIATIVES | | | | |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ 1,075,133 | 1,075,133 | 324,876 | 750,257 |
| Contractual services | 6,743,817 | 8,343,817 | 1,230,352 | 7,113,465 |
| Other costs | 7,076,770 | 7,176,770 | 3,007,180 | 4,169,590 |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ 14,895,720 | 16,595,720 | 4,562,408 | 12,033,312 |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Major Governmental Funds -

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

GENERAL FUND - TOTAL - continued

| | | |
|---|----|--------------------|
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES), EXCLUDING REVERSIONS | \$ | (1,263,100) |
| REVERSAL OF PRIOR YEAR ACCOUNTS RECEIVABLE | | (238,112) |
| REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT FUNDS | | 138,370 |
| TRANSFER TO STATE GENERAL FUND (NOT BUDGETED) | | <u>(4,926,722)</u> |
| NET CHANGE IN FUND BALANCE | \$ | <u>(6,289,564)</u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

| | 89000 - ARRA | | | |
|--|-----------------------------|--------------------------|--------------------------|--|
| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES: | | | | |
| Federal funds | \$ 47,827,484 | 59,156,158 | 23,582,627 | 35,573,531 |
| General funds | - | - | - | - |
| Other State funds | - | - | - | - |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ <u>47,827,484</u> | <u>59,156,158</u> | <u>23,582,627</u> | <u>35,573,531</u> |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ 4,919,799 | 7,733,131 | 2,291,599 | 5,441,532 |
| Contractual services | 25,933,938 | 36,448,411 | 13,777,149 | 22,671,262 |
| Other costs | 16,973,747 | 16,774,616 | 7,513,879 | 9,260,737 |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ <u>47,827,484</u> | <u>60,956,158</u> | <u>23,582,627</u> | <u>37,373,531</u> |
| | | | | |
| PRIOR YEAR ACCRUAL OF FEDERAL REVENUE | | | 47,408 | |
| REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT FUNDS | | | <u>(47,408)</u> | |
| | | | | |
| NET CHANGE IN FUND BALANCE | | | <u>\$ -</u> | |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Net Assets - Proprietary Funds

| AS OF JUNE 30, 2011 | 20020 | 20060 | |
|---|--|--|---------------------------|
| | Unemployment Insurance Trust Enterprise Fund | State Unemployment Insurance Trust Enterprise Fund | Total |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 703,410 | 526,922 | 1,230,332 |
| Cash held with U.S. Treasury | 178,141,190 | - | 178,141,190 |
| Due from governmental funds | 365,293 | - | 365,293 |
| Due from enterprise funds | 526,922 | - | 526,922 |
| Due from federal government | 1,120,685 | - | 1,120,685 |
| Accounts receivable, net of allowance for uncollectibles | <u>59,297,334</u> | <u>-</u> | <u>59,297,334</u> |
| TOTAL CURRENT ASSETS | \$ <u>240,154,834</u> | <u>526,922</u> | <u>240,681,756</u> |
| CURRENT LIABILITIES: | | | |
| Cash overdraft | \$ 1,395,962 | - | 1,395,962 |
| Benefits payable | 3,118,733 | - | 3,118,733 |
| Due to enterprise funds | - | 526,922 | 526,922 |
| Due to governmental funds | 12,555,414 | - | 12,555,414 |
| Due to other state agencies | 132,252 | - | 132,252 |
| Deferred revenue | <u>31,252,600</u> | <u>-</u> | <u>31,252,600</u> |
| TOTAL CURRENT LIABILITIES | 48,454,961 | 526,922 | 48,981,883 |
| NET ASSETS: | | | |
| Restricted for: | | | |
| Unemployment insurance trust | <u>191,699,873</u> | <u>-</u> | <u>191,699,873</u> |
| TOTAL NET ASSETS | <u>191,699,873</u> | <u>-</u> | <u>191,699,873</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>240,154,834</u> | <u>526,922</u> | <u>240,681,756</u> |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues, Expenses and Changes
in Net Assets - Proprietary Funds

| YEAR ENDED JUNE 30, 2011 | 20020 Unemployment Insurance Trust Enterprise Fund | 20060 State Unemployment Insurance Trust Enterprise Fund | Total |
|--|---|---|----------------------|
| OPERATING REVENUES: | | | |
| Interest on investments | \$ 8,010,110 | 257 | 8,010,367 |
| Employers taxes and reimbursements | 197,961,394 | - | 197,961,394 |
| CWC reimbursements | 9,179,055 | - | 9,179,055 |
| TOTAL OPERATING REVENUES | 215,150,559 | 257 | 215,150,816 |
| OPERATING EXPENSES: | | | |
| Unemployment benefits distributed to beneficiaries | 742,883,858 | - | 742,883,858 |
| TOTAL OPERATING EXPENSES | 742,883,858 | - | 742,883,858 |
| OPERATING (LOSS) INCOME | (527,733,299) | 257 | (527,733,042) |
| NON-OPERATING REVENUES: | | | |
| Other financing sources | 117,813,997 | | 117,813,997 |
| Grants, contracts and federal reimbursements | 437,717,976 | - | 437,717,976 |
| TOTAL NON-OPERATING REVENUES | 555,531,973 | - | 555,531,973 |
| NON-OPERATING EXPENSES: | | | |
| Other financing uses | - | 10,857 | 10,857 |
| TOTAL NON-OPERATING EXPENSES | - | 10,857 | 10,857 |
| CHANGE IN NET ASSETS | 27,798,674 | (10,600) | 27,788,074 |
| TOTAL NET ASSETS, BEGINNING | 167,845,470 | 10,600 | 167,856,070 |
| RESTATEMENT | (3,944,271) | - | (3,944,271) |
| TOTAL NET ASSETS, BEGINNING, RESTATED | 163,901,199 | 10,600 | 163,911,799 |
| TOTAL NET ASSETS, ENDING | \$ 191,699,873 | - | 191,699,873 |

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Cash Flows - Proprietary Funds

| YEAR ENDED JUNE 30, 2011 | 20020 | 20060 | |
|---|--|---|----------------------|
| | Unemployment Insurance Trust Enterprise Fund | State Unemployment Insurance Trust Enterprise Fund | Total |
| CASH FLOWS PROVIDED BY (USED IN) | | | |
| OPERATING ACTIVITIES: | | | |
| Cash received from employers and CWC reimbursements | \$ 195,334,893 | - | 195,334,893 |
| Cash received from interest and principal in investments (trust fund earnings) | 8,010,110 | 565 | 8,010,675 |
| Cash paid for unemployment benefits | <u>(742,531,626)</u> | <u>-</u> | <u>(742,531,626)</u> |
| CASH PROVIDED BY (USED IN) FOR OPERATING ACTIVITIES: | <u>(539,186,623)</u> | <u>565</u> | <u>(539,186,058)</u> |
| CASH FLOWS PROVIDED BY | | | |
| NON-CAPITAL FINANCING ACTIVITY | | | |
| Cash received from federal government | 436,143,582 | - | 436,143,582 |
| Cash received from NM State Investment Council | 117,803,140 | - | 117,803,140 |
| Transfer of deferred revenue to governmental funds | <u>(16,842,064)</u> | <u>-</u> | <u>(16,842,064)</u> |
| CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITY | <u>537,104,658</u> | <u>-</u> | <u>537,104,658</u> |
| NET (DECREASE) INCREASE IN | | | |
| CASH AND CASH EQUIVALENTS | (2,081,965) | 565 | (2,081,400) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR * | <u>179,530,603</u> | <u>526,357</u> | <u>180,056,960</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ <u>177,448,638</u> | <u>526,922</u> | <u>177,975,560</u> |
| RECONCILIATION OF NET OPERATING (LOSS) INCOME | | | |
| TO CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Operating income (loss) | \$ (527,733,299) | 257 | (527,733,042) |
| Change in receivables | (12,898,469) | | (12,898,469) |
| Change in payables | 363,089 | 308 | 363,397 |
| Change in employer prepayment deferred revenue | <u>1,082,056</u> | <u>-</u> | <u>1,082,056</u> |
| NET CASH (USED IN) PROVIDED BY | | | |
| OPERATING ACTIVITIES | \$ <u>(539,186,623)</u> | <u>565</u> | <u>(539,186,058)</u> |

* The beginning of year cash and cash equivalents for fund 20020 of \$179,530,603 does not agree to the FY10 financial statements' end of year cash and cash equivalents reported as \$184,350,001 on the statement of cash flows as a result of the cash overdraft of \$4,819,398 as of June 30, 2010 for fund 20020 that was incorrectly excluded from the end of year cash and cash equivalents amount.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Fiduciary Fund Assets and Liabilities - Agency Fund

AS OF JUNE 30, 2011

| | <u>Agency Fund</u> |
|--------------------------|--------------------------|
| ASSETS: | |
| Cash on deposit | \$ <u>269,856</u> |
| TOTAL ASSETS | \$ <u><u>269,856</u></u> |
| LIABILITIES: | |
| Amounts held for others | \$ 127,303 |
| Accounts payable | <u>142,553</u> |
| TOTAL LIABILITIES | \$ <u><u>269,856</u></u> |

Notes to Financial Statements

NATURE OF ORGANIZATION

Organization

The State of New Mexico, Department of Labor (the Department) was established by the New Mexico Laws of 1987, Chapter 342, to administer all laws and exercise all functions formerly administered and exercised by the Employment Security Department (ESD), the Workmen's Compensation Administration, the Labor Commissioner and the Office of Human Rights Commission. These same laws abolished the ESD, the Workmen's Compensation Administration and the Labor Commissioner. All appropriations, equipment, supplies, records, personnel and money of the ESD, the Workmen's Compensation Administration, the Labor Commissioner and the office and staff of the Human Rights Commission were transferred to the Department effective July 1, 1987.

The Human Rights Commission and the Labor and Industrial Commission are administratively attached to the Department in accordance with the New Mexico Laws of 1987, Chapter 342, Section 8.

Effective January 1, 1991, pursuant to the Laws of 1990, Ch. 2 Sec. 146, all appropriations, equipment, supplies, records, personnel, appointees, contracts and money of the Worker's Compensation Division of the Labor Department were transferred to the Worker's Compensation Administration. Until June 30, 1993, the Worker's Compensation Administration remained administratively attached in that payroll and voucher payments were processed through the Department of Labor. Effective July 1, 1993, all processing of payments and reporting requirements for the Worker's Compensation Administration were transferred to the Department of Finance and Administration.

The Department is operated under the legislative authority of numerous New Mexico and Federal statutes, including the Wagner-Peyser Act of 1933, the Federal Unemployment Tax Act, Titles III, IX and XII of the Social Security Act, Title IV of the Social Security Act as amended by the Balanced Budget Act of 1997, Public Law 97-300, Job Training Partnership Act, and the New Mexico "Unemployment Compensation Law", Chapter 51, NMSA, 1978 Compilation, Public Law 105-220, and Accountability in Government Act (Sections 6-3A-1 through 6-3A-8, NMSA 1978).

Effective January 22, 2004, Executive Order 2004-004 established the Office of Workforce Training and Development (OWTD) and vested responsibility in it for the receipt, administration and oversight of expenditure of funds from all grants pursuant to the federal Workforce Investment Act of 1998. The Department was responsible for those grants up to the effective date of executive order 2004-004. However, the financial activity associated with the administration of those grants was recorded and tracked in the Department's internal accounting system through June 30, 2004, and were included in the Department's annual report for state fiscal year 2004. However, the separation of the operations of the OWTD from that of the Department was completed starting on July 1, 2005, when the OWTD established its own operating budget and chart of accounts on the Central Accounting System for vouchering, budgetary tracking and reporting purposes. The OWTD also acquired and implemented its own internal tracking system for recording and reporting financial activity associated with the administration of the WIA program.

During the 47th Legislative Session, House Bill 1280 was passed and the bill created the Department of Workforce Solutions in order to establish a single, unified department to administer all laws and exercise all functions administered by the New Mexico Department of Labor and the Governor's Office of Workforce Training and Development. This consolidation was effective July 1, 2007 (FY 2008).

Notes to Financial Statements-continued

NATURE OF ORGANIZATION - CONTINUED

Organization – continued

In FY 2011, the Department was comprised of the following:

Office of the Secretary - The Secretary of the Department is responsible for all operations of the Department and administers and enforces the laws with which the Department is charged.

Administrative Services Division - This Division is responsible for finance, budget, internal audit, procurement, grants monitoring, and general services.

Workforce Transition Services – To administer an array of demand driven workforce development services to prepare New Mexicans to meet the needs of business. This program includes Work Services and Unemployment Insurance.

Business Services – To provide standardized business solution strategies and labor market information through the New Mexico public workforce system that is responsive to the needs of New Mexico businesses. This program includes business development and outreach along with labor market information.

Labor Relations – To provide employment rights information and other work-site based assistance to employers and employees. This program is comprised of Labor and Industrial and Human Rights.

Workforce Technology – To provide and maintain effective and innovative information technology services for the agency and its service providers that enable management and utilization of the Department's operating systems and information technology architecture.

The Department received revenue mainly from the following sources:

Federal, state and local governments:

- Grants and contracts for administration of unemployment insurance, employment service and workforce training and development activities
- Reimbursements of benefits paid to federal claimants and for other special benefits applicable to other claimants
- Miscellaneous contracts and matching funds
- State General Fund appropriations
- Transfers from other state funds
- Employers of New Mexico
- Investment Income

The Department expended the money for the following purposes:

- Payments to claimants for unemployment insurance benefits
- Operating and administrative costs including capital expenditures
- Payments to employers for apprenticeship training
- Workforce Investment Act activities, programs and administration

Notes to Financial Statements-continued

NATURE OF ORGANIZATION - CONTINUED

Reporting Entity

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. Even though the Governor appoints the Department Secretary, the Secretary has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and is primarily accountable for fiscal matters. The Department is part of the primary government of the State of New Mexico and its financial statement should be included with the financial statements of the State. However, the State of New Mexico does not currently issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The Department's financial statements contain no component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. GASB Statement 34, Statement 37 and Statement 38 establish financial reporting requirements for state and local governments throughout the United States. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20.

The Department is responsible for the fair presentation of the accompanying financial statements in conformity with generally accepted accounting principles. The Department has prepared required supplementary information in the titled Management's Discussion and Analysis (MD&A), which precedes the basic financial statements. The Department's significant accounting policies are described below.

Financial Reporting Entity

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The new reporting model's focus is on either the Department as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis by column, and is reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which is otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function.

The net cost (by function) is normally covered by general revenues (intergovernmental revenues, interest income, etc). The Department employs a cost allocation system based upon total payroll.

Notes to Financial Statements-continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

This government-wide focus is more on the sustainability of the Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major fund in the governmental category.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Department 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 on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

Effective for fiscal years beginning after June 15, 2010, *GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions*, will provide modifications to, and additional types of, fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds. The Department implemented this standard in fiscal year 2011.

The Department's fiduciary fund (agency fund) is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

The Department of Workforce Solutions has a revenue spending policy that provides guidance for programs with multiple revenue sources. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance which must be appropriated by the legislature.

Basis of Presentation - Fund Accounting

The accounts of the Department are organized on the basis of 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 and expenditures. The various funds are summarized by type in the accompanying financial statements. The following fund types are used by the Department:

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.

Notes to Financial Statements-continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 or fund liabilities.

For FY 2011, the General fund (SHARE fund 32900) and ARRA (SHARE Fund 89000) special revenue fund are presented as major funds. The ARRA fund was presented as major for transparency purposes. The remaining special revenue funds (SHARE funds 61300, 61400, 71100, 20410 and 20430) are presented as non-major on the Department's financial statements.

General Fund (SHARE Fund 32900) - The Department's General Fund is the operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund combines activities for all of the programs of the Department. The Department's General Fund is funded from appropriations from the State of New Mexico General Fund, special appropriations, Federal grants and other revenue. Prior to FY 09, the Department used various other funds to account for activities for the various programs of the Department. During FY 09, the Department began using the General Fund for all of these programs. These additional funds consist of the following: SHARE 33000, 33100, 33200, 33300, 24000, 24100, 24400 and 20420. These funds do not have legally adopted budgets; thus, they do not have budgetary comparisons. During FY10, activity was not recorded in these funds and any remaining balances in the accounts were included in SHARE Fund 32900 in these financial statements. The fund is reverting and is considered a major fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Restricted or committed revenue sources are expected to continue to represent a substantial portion of the inflows reported in these funds.

ARRA Fund (SHARE Fund 89000). The American Recovery and Reinvestment Act (ARRA) Fund is used to track all ARRA program and administration expenditures separately from all other funding sources. Funding includes UI Modernization, UI Administration, Employment and Re-employment Services and WIA ARRA activities. This fund was established in 2009 and is a non-reverting fund. The fund was established for the Department by New Mexico Department of Finance and Administration and New Mexico Office of Recovery and Reinvestment in FY 09.

Special Revenue Non-Major Funds

Employment Security Department Fund (Penalty and Interest Fund, SHARE Fund 61300). This fund was created by Section 51-1-34, New Mexico Statutes Annotated 1978 Compilation, to account for the receipt and disbursement of penalties and interest imposed in the collection of unemployment insurance taxes. All money paid into this fund may be expended only pursuant to an appropriation by the Legislature or specific provision of law. The fund is non-reverting.

Public Works Apprenticeship and Training Fund (PWAT, SHARE Fund 61400). This fund was created by Section 13-4D-2, New Mexico Statutes Annotated 1978, effective May 20, 1992. Employer "contributions" are to be used to establish an apprenticeship program by the Bureau of Apprenticeship and Training of the U.S. Department of Labor and the NM Apprenticeship Council, per Section 13-4D-5A, NMSA 1978. The fund is non-reverting.

Notes to Financial Statements-continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Labor Enforcement Fund (LEF, SHARE Fund 71100). This fund was created by Section 13-4-14.1, New Mexico Statutes Annotated 1978, effective May 19, 2004, to account for registration fees from contractors and subcontractors collected by the Labor and Industrial Division of the Department. All money in the fund is appropriated for the administration and enforcement of the Public Works Minimum Wage Act. The money in this fund does not revert to the General Fund at the end of a fiscal year. The fund was created by House Bill 1280 which merged the Office of Training and Development with the Department in FY 08.

Local WIA Board Fund (SHARE Fund 20410). This special revenue fund is used to account for federal flow-through funds from the United States Department of Labor to local area workforce development boards in accordance with the provisions of the Workforce Investment Act of 1998. This fund is non-reverting.

Family Opportunity Fund (SHARE Fund 20430). This fund was created by Section 58-30-1 NMSA 1978. This special revenue fund is used to account for the appropriations from the State General Fund in accordance with the provisions of the Family Opportunity Act. The fund is non-reverting.

Proprietary Funds - The proprietary funds are used to account for the transactions of the unemployment insurance fund. These funds are considered major.

Unemployment Insurance Trust Enterprise Fund (SHARE Fund 20020). This fund is used to account for the unemployment insurance services (UI) of the Department. As the unemployment insurance fund of the State of New Mexico, it is classified as an enterprise fund. This is a non-reverting fund.

State Unemployment Trust Fund (SHARE Fund 20060). Distributions to this fund will be from the unemployment insurance taxes collected from employers in the State. These distributions will be invested by the State Investment Officer in investments similar to the types that land grant permanent funds are invested in. The earnings from these investments are to remain in the State Unemployment Trust Fund. These earnings may be appropriated to the Department by the New Mexico Legislature for the administration of unemployment insurance or employment security programs. This fund is non-reverting.

Effective July 1, 2010, House Bill 144 abolishes the SUTF and transfers the balance of funds into the UTF (20020) for the purpose of paying benefits to claimants.

Fiduciary Funds (SHARE Fund 17800) - Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Department. Agency funds are custodial in nature and do not involve measurement of results of operations. The Wage Claim Fund is an agency fund which is a holding account for wage claim assignments collected by the Department's Labor Relations Division (LRD) from employers, pending the final outcome of wage disputes filed by employees or employer(s). Upon resolution, amounts deposited into the Wage Claim Fund are disbursed to either the employee or employer as determined by the LRD Director. Only one fiduciary fund existed during the fiscal year.

Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange

Notes to Financial Statements-continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, 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 fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, typically 60 days).

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax 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, other than vacation, compensatory and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. There was no interest expense incurred during the year ended June 30, 2010.

The proprietary fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The proprietary fund follows accounting principles promulgated by GASB as well as those promulgated by the Financial Accounting Standards Board prior to November 30, 1989, unless they conflict with GASB pronouncements. Interest on investments, employee taxes and reimbursements are considered operating revenues. All other services of revenue, such as grants, contracts and transfers, are considered non-operating revenues.

Budgets and Budgetary Accounting

The Department follows these procedures in establishing the budgetary data reflected in the financial statements for the agency:

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and

Notes to Financial Statements-continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control should be disclosed in the notes to the financial statements. Legal budgetary control for expenditures and encumbrances is by category of the appropriation unit. The Department's unemployment insurance trust fund (SHARE Fund 20020) does not have a legally adopted budget.

Encumbrances

The Department uses encumbrances for certain balances that may be carried forward based on the appropriation language from Legislation. Encumbered funds that do not revert at the end of the appropriation period are re-budgeted in the new fiscal year. If the applicable appropriation extends beyond the end of the fiscal year, then the Department is permitted to carry forward the encumbrance into the new fiscal year. Fund balance is designated as either reserved or unreserved in these financial statements in accordance with this criterion. For the fiscal year ended 2011, the Department did not have any encumbrances presented in the financial statements.

Net Assets/Fund Balance

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent:

Nonspendable is amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The amount of net assets restricted by enabling legislation is \$199,912,913, which represents all restricted net assets reported as of June 30, 2011.

Committed is that portion of fund balance that has been approved by the highest level of formal action of the Legislature and does not lapse at year-end. The Department does not have any committed fund balance this fiscal year.

Assigned fund balance has a use constraint imposed unilaterally by government separate from legislation creating the revenue source. This classification indicates the intent to use resources for a specific purpose, but is neither restricted nor committed.

Notes to Financial Statements-continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unassigned fund balance is the residual amount after all classifications have been considered. A positive unassigned fund balance will be reported in the General Fund only.

The Department of Workforce Solutions has a revenue spending policy that provides guidance for programs with multiple revenue sources. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance which must be appropriated by the legislature.

Cash and Investments

Cash includes amounts in the demand deposits.

Investments with the State Treasurer in the State General Fund Investment Pool are stated at quoted market prices. Investments with the U.S. Treasury represent the Department's portion of the U.S. Treasury Department Unemployment Trust Fund Investment Pool (U.S. Treasury Pool). The Department does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

For the purpose of the proprietary fund statement of cash flows, cash equivalents are defined as investments with the U.S. Treasury Pool.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheets of the fund financial statements. Internal activity is eliminated at the government-wide statement of activities.

Capital Assets

Capital assets consist of tangible personal property having a value equal to or greater than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at historical cost. Capital assets are depreciated over their estimated useful life using the straight-line mid-month convention.

Salvage value is not included in the depreciation calculation.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives in years:

| | |
|------------------------|----|
| Computer equipment | 3 |
| Office equipment | 5 |
| Furniture and fixtures | 10 |
| Office renovations | 20 |

Notes to Financial Statements-continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Department capitalizes computer software, whether purchased or developed internally, in accordance with guidelines provided by the GSD Rule NMAC Chapter 20, Part 1, Sections 2.20.1.9C(5) and 2.20.1.10C and FASB 86 accounting principles.

Use of Estimates

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

Subsequent Events

At June 30, 2011, the Department had no claims that the Risk Management Division has returned as not covered that would become the responsibility of the Department.

Management evaluated subsequent events through December 14, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to December 14, 2011, that provided additional evidence about conditions that existed at June 30, 2011 have been recognized in the financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2011.

2. CASH DEPOSIT ACCOUNTS AND INVESTMENTS

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts on page 62, in the Bank of America (BA) of \$943,098 and in Wells Fargo Bank (WF) of \$1,310,920. These deposits represent cash balances associated with agency vouchering activities. FDIC coverage of \$500,000 is available for these deposits; collateral for the balance is provided by collateral pledged to the New Mexico State Treasurer to secure state deposits in accordance with 6-10-17 NMSA 1978. The Department also has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$1,938,758 with the State Treasurer in the State General Fund Investment Pool.

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. In accordance with Section 6-10-7 NMSA 1978, deposits of public monies are to be collateralized in an aggregate equal to 50% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage. Deposits are exposed to custodial risks if they are not covered by depository insurance.

Detail of pledged collateral specific to this agency is unavailable because the bank maintains pledged collateral for the state as a whole. However, the State Treasurer's Office collateral bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts (Schedule 2).

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements-continued

2. CASH DEPOSIT ACCOUNTS AND INVESTMENTS - CONTINUED

The New Mexico State Treasurer's Office is responsible to ensure that all accounts are collateralized at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved and the market value of purchased investments, which may differ from the cash deposited by the Department. Additional disclosures are the types of deposits and investments authorized by the New Mexico Constitution.

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, refer to the Schedule of Individual Deposit Accounts (Schedule 1).

The amounts reported as investments with the U.S. Treasury are invested in an investment pool which is not subject to categorization. The differences between the bank balance and SHARE balance are the result of timing differences with posting and processing cash transactions.

3. CAPITAL ASSETS

A summary of changes in capital assets follows:

| | June 30, 2010 | FY11 Additions | FY11 Disposals | June 30, 2011 |
|---------------------------------------|---------------------|-------------------|-------------------|--------------------|
| Office Improvements | \$ 1,177,863 | 1,742,181 | - | 2,920,044 |
| Vehicles | - | 302,074 | - | 302,074 |
| Office Equipment | 2,208,753 | - | (34,030) | 2,174,723 |
| Furniture | 347,844 | 518,247 | - | 866,091 |
| Computer Equipment | 1,543,660 | 200,784 | - | 1,744,444 |
| WIP | 4,154,709 | 10,283,712 | - | 14,438,421 |
| Total Acquired Value | 9,432,829 | 13,046,998 | (34,030) | 22,445,797 |
| Accumulated depreciation: | | | | |
| Office Improvements | (333,137) | (132,133) | - | (465,270) |
| Vehicles | - | (15,104) | - | (15,104) |
| Office Equipment | (1,998,987) | (36,854) | 34,030 | (2,001,811) |
| Furniture | (355,211) | (25,912) | - | (381,123) |
| Computer Equipment | (465,483) | (280,907) | - | (746,390) |
| Total Accumulated Depreciation | (3,152,818) | (490,910) | 34,030 | (3,609,698) |
| Net Total | \$ 6,280,011 | 12,556,088 | - | 18,836,099 |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements-continued

3. CAPITAL ASSETS - CONTINUED

Land, buildings and automobiles used by the Department are not included in these financial statements due to the fact that the assets are included in the financial statements of the New Mexico General Services Department.

Depreciation expense was charged to functions as follows:

| | | |
|-------------------------------|----|----------------|
| Workforce transition services | \$ | 35,074 |
| Workforce technology | | 304,795 |
| Business services | | 19,815 |
| Program support | | 13,641 |
| Other workforce initiatives | | <u>117,585</u> |
| | \$ | <u>490,910</u> |

4. UNEMPLOYMENT INSURANCE FUND – BENEFITS PAYABLE

A liability has been recorded for benefits claimed prior to but paid subsequent to June 30, 2011, consisting of the following:

| | | |
|---|----|------------------|
| Unemployment benefits | \$ | 3,118,733 |
| Withholding benefits (due to Human Services Dept.) (Note 9) | | <u>132,252</u> |
| Total | \$ | <u>3,250,985</u> |

5. RECEIVABLES

| | | |
|------------------------------------|----|---------------------|
| Receivable: | | |
| Current UI taxes | \$ | 57,779,567 |
| Benefit overpayments | | 53,728,693 |
| Combined wage claimants (CWC) | | <u>1,517,767</u> |
| Gross receivables | | 113,026,027 |
| Less allowance for uncollectibles: | | |
| Benefit overpayments | | <u>(53,728,693)</u> |
| Total allowances | | <u>(53,728,693)</u> |
| Net total receivables – fund level | | <u>59,297,334</u> |
| Total | \$ | <u>59,297,334</u> |

Current Unemployment Insurance (UI) Taxes

This amount represents UI taxes due from reimbursable and regular employers for quarters before and for the quarter ending June 30, 2011, which were collected subsequently. This amount is an estimate based upon a review of cash receipts subsequent to the end of the fiscal year.

Notes to Financial Statements-continued

5. RECEIVABLES - CONTINUED

Benefit Overpayments

This amount represents amounts due from claimants. These are derived from overpayment of benefits established as a result of an adjudicator's decision reversing an earlier award of benefits. An allowance for Uncollectibles would usually be for an equal amount of accounts receivable. Although some past due accounts will be collected, no estimate has been made by the Department of the amount of collectible receivables.

Combined Wage Claimants

This amount represents amounts due from other states for benefit charges. It is reported in the financial statements net of the liability to the UI trust fund ledger.

6. OPERATING LEASES

The Department leases field office space and equipment under operating leases. Rental expenditures for land and buildings for the fiscal year ended June 30, 2011 were \$557,772. Rental expenditures for equipment for the fiscal year ended June 30, 2011 were \$588,489. The future minimum rental commitments as of June 30, 2010 were as follows:

| <u>Year Ended June 30.</u> | <u>Office Space</u> | <u>Equipment</u> | <u>Total</u> |
|----------------------------|---------------------|------------------|------------------|
| 2012 | \$ 357,154 | 584,740 | 941,894 |
| 2013 | 125,352 | 432,394 | 557,746 |
| 2014 | 61,062 | 419,443 | 480,505 |
| 2015 | - | 402,862 | 402,862 |
| 2016 | - | 341,880 | 341,880 |
| 2017 and thereafter | - | 322,415 | 322,415 |
| Total | \$ <u>543,568</u> | <u>2,503,734</u> | <u>3,047,302</u> |

7. COMPENSATED ABSENCES

The changes to compensated absences are as follows:

| <u>Liabilities</u> | <u>Balance June 30, 2010</u> | <u>Increase</u> | <u>(Decrease)</u> | <u>Balance June 30, 2011</u> |
|-----------------------|----------------------------------|------------------|--------------------|----------------------------------|
| Sick and annual leave | \$ <u>1,272,437</u> | <u>1,074,353</u> | <u>(1,171,442)</u> | <u>1,175,348</u> |
| | \$ <u>1,272,437</u> | <u>1,074,353</u> | <u>(1,171,442)</u> | <u>1,175,348</u> |

\$1,175,348 of the compensated absences is considered due within one year. Compensated absences are liquidated with resources from the Department's General Fund (SHARE Fund 32900).

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements-continued

8. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables reflect short-term (current) borrowings among the Department's funds in the normal course of business. The Department has the following interfund receivables and payables between its funds at June 30, 2011.

| Due to Other Funds | | Due from Other Funds | | | | | |
|-------------------------|----------------|-----------------------|--------------------|--------------------------|--|-------------------------|-------------------|
| SHARE Fund Name | SHARE Fund No. | Enterprise Fund 20020 | General Fund 32900 | Penalty & Interest 61300 | Public Works Apprenticeship and Training 61400 | Labor Enforcement 71100 | Total |
| Enterprise Fund | 20020 | \$ - | 12,555,414 | - | - | - | 12,555,414 |
| General Fund | 32900 | 365,293 | - | 2,259,210 | 1,086,789 | 492,338 | 4,203,630 |
| ARRA | 89000 | - | 91,211 | - | - | - | 91,211 |
| Local WIA Board Fund | 20401 | - | 46,862 | - | - | - | 46,862 |
| Family Opportunity Fund | 20430 | - | 128,257 | - | - | - | 128,257 |
| Total | | \$ <u>365,293</u> | <u>12,821,744</u> | <u>2,259,210</u> | <u>1,086,789</u> | <u>492,338</u> | <u>17,025,374</u> |

9. DUE FROM AND DUE TO OTHER AGENCIES

Transactions that occur among state agencies under legislative mandate, exchange transactions and other situations are accounted for in the financial statements which make up the due from and due to other state agencies. The due from and due to other agencies balances at June 30, 2011 consist of the following:

- Due From Other State Agencies

| DWS Fund No. | Agency | Other Agency's | Amount |
|--------------|--------------------------------------|----------------|---------------|
| 32900 | New Mexico Human Services Department | 05200 | \$ 26,523 |
| 71100 | State Treasurer's Office | 74100 | <u>41</u> |
| | Total | | <u>26,564</u> |

Notes to Financial Statements-continued

9. DUE FROM AND DUE TO OTHER AGENCIES - CONTINUED

- Due To Other State Agencies

| DWS Fund No. | Agency | Other Agency's | Amount |
|-----------------|--------------------------------------|-------------------|------------------|
| 32900 | State General Fund | 85200 | \$ 4,926,722 |
| 20020 | New Mexico Human Services Department | 05200 | <u>132,252</u> |
| | Total | | <u>5,058,974</u> |

10. ACCUMULATED UNUSED/UNPAID ANNUAL AND SICK LEAVE

The Department changed, in a prior year, its method of accumulating annual and sick leave from a day method to an hourly method based on length of civil services. Personnel employed prior to April 14, 1990, accrue annual leave at a different rate than personnel employed on or after April 14, 1990. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January.

Annual leave may not be used before it is accrued. When employees terminate, except for a reduction in force, they are compensated for accumulated unpaid leave up to a maximum of 240 hours at their current hourly rate. Employee separating due to a reduction in force will receive all accrued annual leave at their current hourly rate.

Qualified employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period. Sick leave may not be used before it is accrued. There is no limit to the amount of sick leave that an employee may accumulate.

Per New Mexico State Personnel Board Rules and Regulations, employees who have accumulated more than 600 hours of unused sick leave are entitled to be paid for unused sick leave in excess of 600 hours at a rate equal to fifty percent (50%) of their hourly rate of pay for up to 120 hours of sick leave. Payment for unused sick leave may be made only once per fiscal year on either the payday immediately following the first full pay period in January or the first full pay-period in July.

11. SURETY BOND

Since September 1, 1987 through the present, surety bond coverage for the Department has been provided through the State of New Mexico's self-insured statewide policy, which is administered by the Risk Management Division of the General Services Department. The surety bond covers all officers and employees of the State of New Mexico for faithful performance, theft and embezzlement of money. The amount of coverage is \$1,050,000 per occurrence.

12. PENSION PLAN - PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Plan Description

Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public

Notes to Financial Statements-continued

12. PENSION PLAN – PUBLIC EMPLOYEES’ RETIREMENT ASSOCIATION - CONTINUED

Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2011, 2010 and 2009 were \$2,725,106, \$2,822,164 and \$3,124,453, respectively, which equal the amount of the required contributions for each fiscal year.

13. REVERSIONS

The Department did not have any reversions for FY 2011.

14. DEFERRED REVENUE

The Department’s deferred revenue in Fund 20020 as of June 30, 2011 consisted of the following:

| | | |
|--|----|-------------------|
| UI Module – ARRA | \$ | 23,534,921 |
| Reed Act | | 7,028,372 |
| Federal Additional Compensation-Administration | | 517,616 |
| Employer Prepayments | | <u>171,691</u> |
| Total | \$ | <u>31,252,600</u> |

15. TRANSFERS

Transfers occurring during fiscal year June 30, 2011 are as follows:

Inter-fund transfers consist of the following:

| Fund | Governmental Funds | Operating Transfers In | Operating Transfers Out |
|-------|----------------------------|------------------------|-------------------------|
| 32900 | General Fund | \$ 46,940 | - |
| 20410 | Local WIA Board Fund | - | 46,862 |
| 20430 | Family Opportunity Fund | - | <u>78</u> |
| | Total inter-fund transfers | \$ <u>46,940</u> | <u>46,940</u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements-continued

15. TRANSFERS - CONTINUED

| Agency | Fund | Enterprise Funds | Operating Transfers In | Operating Transfers Out |
|----------------------------|-------|------------------------------------|------------------------|-------------------------|
| 63100 | 20020 | UI Trust Fund | \$ 10,857 | - |
| 63100 | 20060 | State UI Trust Fund | - | 10,857 |
| 33700 | 10340 | NM State Investment Council – SUTF | 117,803,140 | - |
| Total inter-fund transfers | | | \$ <u>117,813,997</u> | <u>10,857</u> |

The inter-fund transfers that occurred during fiscal year ended June 30, 2011 represent transfers to closeout funds no longer in use by the Department.

Inter-agency transfers consist of the following:

| Agency | Fund | Governmental Funds | Operating Transfers In | Operating Transfers Out |
|------------------------------|-------|--------------------------------------|------------------------|-------------------------|
| 63200 | 98200 | Worker’s Compensation Administration | \$ 691,500 | - |
| 34100 | 85200 | State General Fund | - | 4,926,722 |
| Total inter-agency transfers | | | \$ <u>691,500</u> | <u>4,926,722</u> |

The inter-agency transfer from Worker’s Compensation Administration is an appropriation. The inter-agency transfer from NM State Investment Council is a result of abolishing the SUTF per House Bill 144 of the Laws of 2010 that required the transfer of the balance of the SUTF to the UI Trust Fund of the Department. The inter-agency transfer to the State General Fund is a result of a \$4,926,722 transfer to the Department in FY09 and the Department has determined that, as of June 30, 2011, the funds are to be transferred to the State General Fund. These funds do not represent unexpended General Fund Appropriations for the year ended June 30, 2011.

16. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer’s effective date and the date of retirement; 2) retirees defined by the Act who

Notes to Financial Statements-continued

16. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN - CONTINUED

retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer’s RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013, the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan, the contribution rates will be:

| Fiscal Year | Employer Contribution Rate | Employee Contribution Rate |
|-------------|----------------------------|----------------------------|
| FY12 | 1.834% | .917% |
| FY13 | 2.000% | 1.000% |

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Department’s contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$297,972, \$240,808 and \$244,480, respectively, which equal the required contributions for each year.

17. CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

The Department is a party to various claims and other legal matters which arise during the normal course of operations. The Department, however, does not believe that the results of all claims and other legal matters, individually or in the aggregate, would have a materially adverse effect on its operations or financial position.

Notes to Financial Statements-continued

18. RISK MANAGEMENT

The Department is exposed to various risks of loss for which the Department is insured (auto, employee fidelity bond, general liability, civil rights, foreign jurisdiction, money and securities, property, worker's compensation) with the State of New Mexico's General Services Department/Risk Management Division.

19. CASH SHORTFALL

The Department has projected a cash shortfall in the Unemployment Trust Fund held with the U.S. Treasury. Unemployment Compensation (UC) is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA). Federal laws and regulations provide broad guidelines on state unemployment taxes. States levy their own payroll taxes on employers to fund regular UC benefits and the state share of the Extended Benefit (EB) program.

The U.S. Department of Labor (DOL) suggests that, to be minimally solvent, a state's reserve balance should provide for one year's projected benefit payment needs on the basis of the highest levels of benefit payments experienced by the state over the last twenty years. Using these guidelines, the Department has determined that a cash shortage in the fund will be realized in the first quarter of the 2013 fiscal year, assuming current conditions. This outlook is more positive than the original insolvency projection of first quarter 2012, made at the end of last fiscal year.

UC benefits are an entitlement, although the program is financed by a dedicated tax imposed on employers, and not by general revenues. The state remains legally required to continue paying benefits even in times of trust fund insolvency, which it does by obtaining loans through the federal program or with other financing options.

20. FUND BALANCE AND NET ASSET RESTATEMENTS

The June 30, 2010 financial statements were issued with the fund balance in the General Fund (32900) understated by \$3,944,271 due to an error in the recognition of the deferred revenue related to the Reed Act. As a result of this error, beginning fund balance for fund 32900 was restated as follows

| | |
|--|---------------------|
| Fund balance as originally reported, June 30, 2010 | \$ 3,014,536 |
| Restatement | <u>3,944,271</u> |
| Fund balance, July 1, 2010, restated | \$ <u>6,958,807</u> |

The June 30, 2010 financial statements were issued with the net assets in the Unemployment Insurance Trust Enterprise Fund (20020) overstated by \$3,944,271 due to an error in the recognition of the deferred revenue related to the Reed Act. As a result of this error, beginning net assets for fund 20020 were restated as follows

| | |
|--|-----------------------|
| Net assets as originally reported, June 30, 2010 | \$ 167,845,470 |
| Restatement | <u>(3,944,271)</u> |
| Net assets, July 1, 2010, restated | \$ <u>163,901,199</u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements-continued

20. FUND BALANCE AND NET ASSET RESTATEMENTS - CONTINUED

As a result of this error beginning net assets were restated as follows:

| | |
|---|-----------------------|
| Governmental Activities Net assets as originally reported, June 30, 2010 | \$ 13,440,388 |
| Restatement | <u>3,944,271</u> |
| Governmental Activities Net assets, July 1, 2010, restated | \$ <u>17,384,659</u> |
| Business-Type Activities Net assets as originally reported, June 30, 2010 | \$ 167,856,070 |
| Restatement | <u>(3,944,271)</u> |
| Business-Type Activities Net assets, July 1, 2010, restated | \$ <u>163,911,799</u> |

21. FUND BALANCE CLASSIFICATIONS

The Department's fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2011 follows:

| | Major Fund | Non-Major Special Revenue Fund | Non-Major Special Revenue Fund | Non-Major Special Revenue Fund |
|--|----------------------------|---|---|---|
| | General Fund (32900) | Penalty and Interest (61300) | Public Works Apprenticeship and Training (61400) | Labor Enforcement Fund (71100) |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Special Revenue Funds, | | | | |
| per Section 51-1-34 NMSA 1978 | \$ - | 4,224,966 | - | - |
| per Section 13-4-14.1 NMSA 1978 | - | - | - | 982,217 |
| Public Works Apprenticeship & Training | | | | |
| per Section 13-4D-2 | - | - | 3,005,857 | - |
| Assigned * | <u>669,243</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balances | \$ <u>669,243</u> | <u>4,224,966</u> | <u>3,005,857</u> | <u>982,217</u> |

* The assigned fund balance remaining within the General Fund (32900) relates to residual unexpended fund balance from the special revenue funds to be expended for operations in fiscal year 2012.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Major Proprietary Funds -
Budget and Actual (Accrual Basis)

YEAR ENDED JUNE 30, 2010

| | | 20060 - STATE UNEMPLOYMENT INSURANCE TRUST FUND | | | |
|---|-----------|---|-----------------------|---------------------------|--|
| | | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
| | | Original | Final | | |
| REVENUES: | | | | | |
| Federal funds | \$ | - | - | - | - |
| General funds | | - | - | - | - |
| Other State funds | | 171,300 | 171,300 | 257 | 171,043 |
| Inter-agency transfers | | - | - | - | - |
| Budgeted fund Balance | | - | - | - | - |
| TOTAL REVENUES | \$ | <u>171,300</u> | <u>171,300</u> | 257 | <u>171,043</u> |
| EXPENDITURES: | | | | | |
| Personal services and benefits | \$ | - | - | - | - |
| Contractual services | | - | - | - | - |
| Other costs | | - | - | - | - |
| Other financing uses | | <u>171,300</u> | <u>171,300</u> | - | <u>171,300</u> |
| TOTAL EXPENDITURES | \$ | <u>171,300</u> | <u>171,300</u> | - | <u>171,300</u> |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES | | | | 257 | |
| TRANSFERS-NOT BUDGETED | | | | (10,857) | |
| NET CHANGE IN NET ASSETS | | | | \$ <u>(10,600)</u> | |

AS OF JUNE 30, 2011

| | 61300 | 61400 |
|--|------------------------------|--|
| | Penalty and Interest | Public Works Apprenticeship and Training |
| | <u> </u> | <u> </u> |
| ASSETS: | | |
| Investment in State General Fund | | |
| Investment Pool | \$ 1,965,756 | 1,919,068 |
| Due from other funds | 2,259,210 | 1,086,789 |
| Due from other state agencies | <u> -</u> | <u> -</u> |
| TOTAL ASSETS | \$ <u>4,224,966</u> | <u>3,005,857</u> |
| LIABILITIES: | | |
| Due to other funds | <u> -</u> | <u> -</u> |
| TOTAL LIABILITIES | - | - |
| FUND BALANCES: | | |
| Restricted for | | |
| Public Works Apprenticeship & Training | - | 3,005,857 |
| Special Revenue Funds | <u>4,224,966</u> | <u> -</u> |
| TOTAL FUND BALANCES | <u>4,224,966</u> | <u>3,005,857</u> |
| TOTAL LIABILITIES AND FUND BALANCES | \$ <u>4,224,966</u> | <u>3,005,857</u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Combining Balance Sheet - Non-Major Governmental Funds

| 71100 Labor Enforcement Fund | 20410 Local WIA Board Fund | 20430 Family Opportunity Fund | Total Non-major Governmental Funds |
|---------------------------------------|----------------------------------|--|--|
| 489,838 | 46,862 | 128,257 | 4,549,781 |
| 492,338 | - | - | 3,838,337 |
| 41 | - | - | 41 |
| <u>982,217</u> | <u>46,862</u> | <u>128,257</u> | <u>8,388,159</u> |
| - | 46,862 | 128,257 | 175,119 |
| - | 46,862 | 128,257 | 175,119 |
| - | - | - | 3,005,857 |
| <u>982,217</u> | <u>-</u> | <u>-</u> | <u>5,207,183</u> |
| <u>982,217</u> | <u>-</u> | <u>-</u> | <u>8,213,040</u> |
| <u>982,217</u> | <u>46,862</u> | <u>128,257</u> | <u>8,388,159</u> |

YEAR ENDED JUNE 30, 2011

| | 61300 | 61400 |
|--|-------------------------|--|
| | Penalty and Interest | Public Works Apprenticeship and Training |
| REVENUES: | | |
| Interest on deposit/investments | \$ - | - |
| Licenses and permits | - | - |
| Federal grant revenue | - | - |
| Penalties and interest | 1,419,614 | - |
| Public Works Apprenticeship and Training | - | 1,014,948 |
| Miscellaneous revenue | - | - |
| TOTAL REVENUES | 1,419,614 | 1,014,948 |
| EXPENDITURES: | | |
| Current: | | |
| Workforce transition services | - | - |
| Labor relations | - | - |
| Workforce technology | - | - |
| Business services | - | - |
| Program support | - | - |
| Other workforce initiatives | - | - |
| Capital outlay | - | - |
| TOTAL EXPENDITURES | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 1,419,614 | 1,014,948 |
| OTHER FINANCING SOURCES (USES): | | |
| State General Fund appropriation | - | - |
| Reversions to State General Fund, FY 2010 | - | - |
| Transfers in: | | |
| Interfund | - | - |
| Other | - | - |
| Transfers out: | | |
| Interfund | - | - |
| Other | - | - |
| NET OTHER FINANCING SOURCES (USES): | - | - |
| NET CHANGE IN FUND BALANCES | 1,419,614 | 1,014,948 |
| BEGINNING FUND BALANCE | 2,805,352 | 1,990,909 |
| ENDING FUND BALANCE | \$ 4,224,966 | 3,005,857 |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Non-Major Governmental Funds

| Special Revenue Funds | | | |
|---------------------------|-------------------------|----------------------------|--|
| 71100 | 20410 | 20430 | Total Non-major Governmental Funds |
| Labor Enforcement Fund | Local WIA Board Fund | Family Opportunity Fund | |
| 1,040 | - | - | 1,040 |
| 406,100 | - | - | 406,100 |
| - | - | - | - |
| - | - | - | 1,419,614 |
| - | - | - | 1,014,948 |
| - | - | - | - |
| 407,140 | - | - | 2,841,702 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 407,140 | - | - | 2,841,702 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | (46,862) | (78) | (46,940) |
| - | - | - | - |
| - | (46,862) | (78) | (46,940) |
| 407,140 | (46,862) | (78) | 2,794,762 |
| 575,077 | 46,862 | 78 | 5,418,278 |
| 982,217 | - | - | 8,213,040 |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Non-Major Governmental Funds -
Budget and Actual (Modified Accrual Basis)

YEAR ENDED JUNE 30, 2011

61300 - PENALTY AND INTEREST

| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
|---|---------------------|------------------|---------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Federal funds | \$ - | - | - | - |
| General funds | - | - | - | - |
| Other State funds | 1,649,400 | 1,649,400 | 1,419,614 | 229,786 |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ <u>1,649,400</u> | <u>1,649,400</u> | <u>1,419,614</u> | <u>229,786</u> |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ - | - | - | - |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Other financing uses | <u>2,356,600</u> | <u>3,856,600</u> | - | <u>3,856,600</u> |
| TOTAL EXPENDITURES | \$ <u>2,356,600</u> | <u>3,856,600</u> | - | <u>3,856,600</u> |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES | | | 1,419,614 | |
| BUDGETED FUND BALANCE | | | - | |
| NET CHANGE IN FUND BALANCE | | | \$ <u>1,419,614</u> | |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
 Non-Major Governmental Funds -
 Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

61400 - PUBLIC WORKS APPRENTICESHIP AND TRAINING

| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
|---|-------------------|------------------|---------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Federal funds | \$ - | - | - | - |
| General funds | - | - | - | - |
| Other State funds | 700,000 | 1,086,789 | 1,014,948 | 71,841 |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ <u>700,000</u> | <u>1,086,789</u> | <u>1,014,948</u> | <u>71,841</u> |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ - | - | - | - |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Other financing uses | <u>700,000</u> | <u>1,086,789</u> | - | <u>1,086,789</u> |
| TOTAL EXPENDITURES | \$ <u>700,000</u> | <u>1,086,789</u> | - | <u>1,086,789</u> |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES | | | <u>1,014,948</u> | |
| NET CHANGE IN FUND BALANCE | | | \$ <u>1,014,948</u> | |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
 Non-Major Governmental Funds -
 Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

71100 - LABOR ENFORCEMENT FUND

| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
|---|-------------------|----------------|-------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Federal funds | \$ - | - | - | - |
| General funds | - | - | - | - |
| Other State funds | 426,400 | 426,400 | 407,140 | (19,260) |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund balance | - | - | - | - |
| TOTAL REVENUES | \$ <u>426,400</u> | <u>426,400</u> | <u>407,140</u> | <u>(19,260)</u> |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ - | - | - | - |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Other financing uses | <u>426,400</u> | <u>426,400</u> | - | 426,400 |
| TOTAL EXPENDITURES | \$ <u>426,400</u> | <u>426,400</u> | - | <u>426,400</u> |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES | | | <u>407,140</u> | |
| NET CHANGE IN FUND BALANCE | | | \$ <u>407,140</u> | |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
 Non-Major Governmental Funds -
 Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

20410 - LOCAL WIA BOARD FUND

| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
|---|------------------|-------|-------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Federal funds | \$ - | - | - | - |
| General funds | - | - | - | - |
| Other State funds | - | - | - | - |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ - | - | - | - |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ - | - | - | - |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ - | - | - | - |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES | | | | - |
| NON-BUDGETED TRANSFER TO CLOSEOUT FUND TO 32900 | | | (46,862) | |
| NET CHANGE IN FUND BALANCE | | | \$ (46,862) | |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
 Non-Major Governmental Funds -
 Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2011

20430 - FAMILY OPPORTUNITY FUND

| | Budgeted Amounts | | Actual Amounts | Variance From Final Budget Positive (Negative) |
|---|------------------|----------|-------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Federal funds | \$ - | - | - | - |
| General funds | - | - | - | - |
| Other State funds | - | - | - | - |
| Inter-agency transfers | - | - | - | - |
| Budgeted fund Balance | - | - | - | - |
| TOTAL REVENUES | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXPENDITURES: | | | | |
| Personal services and benefits | \$ - | - | - | - |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES | | | | - |
| NON-BUDGETED TRANSFER TO CLOSEOUT FUND TO 32900 | | | (78) | |
| NET CHANGE IN FUND BALANCE | | | \$ <u>(78)</u> | |

OTHER SUPPLEMENTAL SCHEDULES

Schedule 1

Schedule of Individual Deposit Accounts

AS OF JUNE 30, 2011

| Account Title | Depository | Balance per Bank | Adjustments/ Reconciling Items | Reconciled Balance per Books |
|---|-------------------------------|------------------------------|--------------------------------------|------------------------------------|
| Governmental Funds with State Treasurer (with SHARE fund numbers): | | | | |
| General Fund - 32900-33300, 20420 | State Treasurer | \$ (2,605,728) | - | (2,605,728) |
| ARRA - 89000 | State Treasurer | (275,151) | - | (275,151) |
| Penalty and Interest - 61300 | State Treasurer | 1,965,756 | - | 1,965,756 |
| PWAT - 61400 | State Treasurer | 1,919,068 | - | 1,919,068 |
| Labor Enforcement Fund - 71100 | State Treasurer | 489,838 | - | 489,838 |
| Workforce Investment Act Lcl Bds - 20410 | State Treasurer | 46,862 | - | 46,862 |
| Family Opportunity Fund - 20430 | State Treasurer | <u>128,257</u> | - | <u>128,257</u> |
| Total Governmental with State Treasurer | | 1,668,902 | - | 1,668,902 |
| Proprietary Funds Cash in Banks | | | | |
| Clearing Account - 20020 | Bank of America | 625,429 | - | 625,429 |
| Clearing Account - 20020 | Wells Fargo | - | (623,501) | (623,501) |
| Clearing Account - 20020 | Wells Fargo | 1,005,365 | - | 1,005,365 |
| State Unemployment Trust Fund - 20060 | Bank of America | 239,688 | - | 239,688 |
| State Unemployment Trust Fund - 20060 | Wells Fargo | 287,234 | - | 287,234 |
| Benefit Account - 20020 | Bank of America | - | - | - |
| Benefit Account - 20020 | Wells Fargo | - | (1,796,147) | (1,796,147) |
| Benefit Account - 20020 | Wells Fargo | 18,321 | - | 18,321 |
| Cash Security Deposit Account - 20020 | Bank of America | <u>77,981</u> | - | <u>77,981</u> |
| Total Proprietary in Banks | | 2,254,018 | (2,419,648) | (165,630) |
| Proprietary Funds Cash - Other | | | | |
| Unemployment Trust Fund - 20020 | U.S. Dept. of the Treasury | <u>178,141,190</u> | - | <u>178,141,190</u> |
| Total Proprietary Other | | 178,141,190 | - | 178,141,190 |
| Total Funds (excluding Agency Fund) | | 182,064,110 | (2,419,648) | 179,644,462 |
| Trust and Agency Funds with State Treasurer (with SHARE fund numbers): | | | | |
| Wage Claim - 17800 | State Treasurer | <u>269,856</u> | - | <u>269,856</u> |
| Total Trust and Agency with State Treasurer | | 269,856 | - | 269,856 |
| Department Total - All Funds | | \$ <u>182,333,966</u> | <u>(2,419,648)</u> | <u>179,914,318</u> |

Schedule 2

Schedule of Pledged Collateral

AS OF JUNE 30, 2011

| | Bank of America | Wells Fargo | U.S. Department of the Treasury | Accounts at State Treasurer | Total |
|----------------------------------|--------------------|----------------|---------------------------------------|-----------------------------------|-------------|
| Total amount of deposit | \$ 943,098 | 1,310,920 | 178,141,190 | 1,938,758 | 182,333,966 |
| Less FDIC | (250,000) | (250,000) | - | - | (500,000) |
| Total uninsured public money | 693,098 | 1,060,920 | 178,141,190 | 1,938,758 | 181,833,966 |
| 50% collateral requirement | 346,549 | 530,460 | 89,070,595 | 969,379 | 90,916,983 |
| State Agency Collateral Listing: | A | A | B | C | A & B & C |
| Total pledged | - | - | - | - | - |
| Over (under) pledged | A | A | B | C | A & B & C |

A: Collateral for the balance is provided by the collateral pledged to the New Mexico State Treasurer to secure state deposits in accordance with 6-10-17 NMSA 1978. Detail of pledged collateral to this agency is unavailable, as the bank commingles pledged collateral for all state funds it holds. However, the State Treasurer's Office of Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

B: The Department maintains a cash equivalent account, the Unemployment Trust Fund, with the United States Department of the Treasury. Deposits to this account include contributions received from employers and withdrawals from this account are used for the payment of state unemployment benefits. The deposits are guaranteed by the full faith and credit of the United States government.

C: This amount is held at the New Mexico State Treasurer and is detailed in the report of the Office of the State Treasurer, whose audit is covered by a separate report. Detail specific for the collateral is commingled by the Office of the State Treasurer, and they monitor the adequacy of the funds pledged for collateral to ensure they are fully covered as required by the Laws of the State of New Mexico and related statutes. For additional GASB 40 disclosure information related to the above investment pool, the reader should refer to the separate audit report for the State Treasurer's Office. The New Mexico State Treasurer's office is not rated.

Custodian: Federal Home Loan Bank, Dallas
Name Security in: New Mexico State Treasurer

The deposits are fully secured since they are in the name of the New Mexico State Treasurer and are held at a separate depository institution that is not affiliated with the depository institution.

Schedule 3

Schedule of Special Appropriations

YEAR ENDED JUNE 30, 2010

The following are the special appropriations:

| Description | Laws | Appropriations | | Amount Budgeted in FY11 | Amount Expended in FY11 | Balance |
|--|----------------------------------|----------------|---------------|-------------------------|-------------------------|---------------------|
| | | Expiration | Amount | | | |
| Reed Act for SHARE enhancement | Laws 2009, Ch. 124, Section 7 #9 | 2012 | \$ 3,500,000 | \$ 1,717,580 | \$ 900,907 | \$ <u>816,673</u> |
| Outstanding Balance | | | | | | \$ <u>816,673</u> |
| Reed Act for UI tax system, time extension | Laws 2009, Ch. 124, Section 7 #9 | 2012 | \$ 12,260,000 | \$ 4,377,833 | \$ 2,571,061 | \$ <u>1,806,772</u> |
| Outstanding Balance | | | | | | \$ <u>1,806,772</u> |

The outstanding balance of special appropriations to these funds is recorded as part of deferred revenue in fund 20020.

Schedule 4

Schedule of Memoranda of Understanding

YEAR ENDED JUNE 30, 2011

The following is a list of Memoranda of Understanding the Department has entered into:

| Description | Responsible Party | Dates of Agreement | | Project Amount | Department Portion | Audit Responsibility | Agency Reporting Revenues/Expenses |
|--------------------------------|-------------------|--------------------|-----------|----------------|--------------------|----------------------|------------------------------------|
| | | Beginning | Ending | | | | |
| Datasharing | N/A | 7/1/2010 | Ongoing | \$ - | \$ - | N/A | N/A |
| UI Tax RFP | N/A | 7/1/2010 | 6/30/2014 | \$ - | \$ - | N/A | N/A |
| Vending Machine Maintenance | N/A | 7/1/2010 | Ongoing | \$ - | \$ - | NMDWS | N/A |
| HVRP Grant - Veterans' Program | N/A | 7/1/2010 | 6/30/2011 | \$ - | \$ - | N/A | N/A |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Changes in Assets and Liabilities -
Agency Fund

Schedule 5

AS OF JUNE 30, 2011

| | Balance <u>June 30, 2010</u> | Additions | Deletions | Balance <u>June 30, 2011</u> |
|--------------------------|---------------------------------|---------------|-----------------|---------------------------------|
| ASSETS: | | | | |
| Cash on deposit | \$ 260,409 | 28,879 | (19,432) | 269,856 |
| TOTAL ASSETS | \$ 260,409 | 28,879 | (19,432) | 269,856 |
| LIABILITIES: | | | | |
| Due to other funds | \$ - | - | - | - |
| Amounts held for others | 117,856 | 28,879 | (19,432) | 127,303 |
| Accounts payable | 142,553 | - | - | 142,553 |
| TOTAL LIABILITIES | \$ 260,409 | 28,879 | (19,432) | 269,856 |

SINGLE AUDIT

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule 6

Schedule of Expenditures of Federal Awards

YEAR ENDED JUNE 30, 2011

| Federal Agency/ Pass-Through Agency | Federal CFDA Number | Federal Participating Expenditures |
|---|---------------------------|--|
| U.S. Department of Labor: | | |
| Labor Force Statistics | 17.002 | \$ 716,915 |
| Unemployment Insurance | 17.225 | 763,418,283 |
| ARRA Unemployment Insurance | 17.225 | 17,937,662 |
| Trade Adjustment Assistance Workers | 17.245 | 3,799,744 |
| H-1B Job Training | 17.268 | 1,090,760 |
| Work Opportunity Tax Credit Program | 17.271 | 149,848 |
| Temporary Labor Certification for Foreign Workers | 17.273 | 85,826 |
| ARRA - Worker Training and Placement in High Growth and Emerging Industry Sectors | 17.275 | 1,250,026 |
| Homeless Veterans' Reintegration Project | 17.805 | 10,000 |
| Employment Service Cluster: | | |
| Employment Services | 17.207 | 5,152,667 |
| ARRA - Employment Services | 17.207 | 1,333,780 |
| Disabled Veteran's Outreach Program | 17.801 | 352,147 |
| Local Veteran's Employment Representative Program | 17.804 | 745,784 |
| Workforce Investment Act Cluster: | | |
| Workforce Investment Act Adult Program | 17.258 | 4,400,249 |
| ARRA - Workforce Investment Act Adult Program | 17.258 | 546,227 |
| Workforce Investment Act Youth Activities | 17.259 | 3,901,658 |
| ARRA - Workforce Investment Act Youth Activities | 17.259 | 927,712 |
| Workforce Investment Act Dislocated Workers | 17.260 | 4,057,147 |
| ARRA - Workforce Investment Act Dislocated Workers | 17.260 | <u>1,539,812</u> |
| Total U.S. Department of Labor | | 811,416,247 |
| U.S. Department of Health and Human Services: | | |
| Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities | 93.768 | 141,530 |
| ACA State Healthcare Workforce Development Grants | 93.509 | <u>19,198</u> |
| Total U.S. Department of Health and Human Services | | <u>160,728</u> |
| Total Federal Awards Expended | | \$ <u><u>811,576,975</u></u> |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to the Schedule of Expenditures of Federal Awards

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Department.

BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Department's general purpose financial statements except for the subrecipient disbursements, which are reported on a cash basis.

RECONCILIATION TO THE FINANCIAL STATEMENTS

| | |
|--|-----------------------|
| Governmental Funds – Federal Revenue | \$ 68,693,117 |
| Proprietary Funds Federal Revenue | 437,717,976 |
| UI Benefit Payments from State Unemployment Compensation | <u>305,165,882</u> |
| Total Federal Revenue | \$ <u>811,576,975</u> |
| Unemployment Benefit Distributions | \$ 742,883,858 |
| Governmental Funds Expenditures: | |
| ARRA Expenditures – Federal | 23,535,219 |
| General Fund Expenditures – Federal | <u>45,157,898</u> |
| Total Governmental Federal Funds Expenditure | <u>68,693,117</u> |
| Total Federal Expenditures | \$ <u>811,576,975</u> |

UNEMPLOYMENT INSURANCE EXPENDITURES FROM STATE UNEMPLOYMENT COMPENSATION

The unemployment compensation system is a unique federal-state partnership, founded upon federal law but implemented through state law. Expenditures reported for the Unemployment Insurance program (CFDA No. 17.225) include unemployment benefit payments from the State Unemployment Compensation Fund totaling \$305,165,882.

REED ACT APPROPRIATIONS

The Department receives appropriations under the Reed Act. These monies are to be spent for activities related to the unemployment insurance program. Included in the total expenditures for the unemployment insurance program (CFDA No. 17.225) is \$3,478,927 related to Reed Act expenditures.

EMPLOYMENT SERVICE (ES) CLUSTER – U.S. DEPARTMENT OF LABOR

ES Cluster includes:

| | |
|---|--------|
| Employment Services | 17.207 |
| Disabled Veterans' Outreach | 17.801 |
| Local Veterans' Employment Representative | 17.804 |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to the Schedule of Expenditures of Federal Awards - continued

WORKFORCE INVESTMENT ACT (WIA) CLUSTER – U.S. DEPARTMENT OF LABOR

WIA Cluster includes:

| | |
|------------------|--------|
| WIA – Adult | 17.258 |
| WIA – Youth | 17.259 |
| WIA – Dislocated | 17.260 |

SUBRECIPIENTS

The Department views the following boards as subrecipients of WIA cluster programs. The pass-through Federal support to the boards is part of the expenditures of the WIA Cluster.

1. The Northern Area Local Workforce Development Board (NALWDB/53895) is one of four regional workforce boards established in compliance with the Workforce Investment Act (WIA) of 1999 and certified by the New Mexico Governor. WIA funds are allocated in three subparts: Adult, Dislocated Worker and Youth. The board received the following pass-through Federal support through the Department in fiscal year 2011:

| | | |
|-----------------------|----|------------------|
| WIA – Adult | \$ | 678,618 |
| WIA ARRA – Adult | | 26,174 |
| WIA – Youth | | 728,985 |
| WIA ARRA – Youth | | 30,414 |
| WIA – Dislocated | | 574,506 |
| WIA ARRA – Dislocated | | <u>203,183</u> |
| Total | \$ | <u>2,241,880</u> |

2. The Eastern Plains Council of Governments (EPCOG/54561) is a voluntary association of county and municipal governments within the seven counties of Planning and Development District IV. The EPCOG is an organization of, by and for local governments. It was established in 1972 to assist in planning for common needs and coordinating for sound regional development. The board received the following Federal support through the Department in fiscal year 2011:

| | | |
|-----------------------|----|------------------|
| WIA – Adult | \$ | 617,799 |
| WIA ARRA – Adult | | 168,266 |
| WIA – Youth | | 632,353 |
| WIA ARRA – Youth | | 50,279 |
| WIA – Dislocated | | 251,600 |
| WIA ARRA – Dislocated | | <u>201,714</u> |
| Total | \$ | <u>1,922,011</u> |

3. The Mid Regional Council of Governments is the administrative entity and fiscal agent for the New Mexico Workforce Connection (WCCNM/9289) in the central region of the state (Bernalillo, Torrance, Sandoval and Valencia Counties). The WCCNM works to support industries, help businesses become competitive and profitable, and grow workers who are skilled and productive. The board received the following Federal support through the Department in fiscal year 2011:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to the Schedule of Expenditures of Federal Awards - continued

| | | |
|-----------------------|----|------------------|
| WIA – Adult | \$ | 1,039,975 |
| WIA ARRA – Adult | | 10,836 |
| WIA – Youth | | 1,055,030 |
| WIA ARRA – Youth | | 27,363 |
| WIA – Dislocated | | 1,858,387 |
| WIA ARRA – Dislocated | | <u>484,521</u> |
| Total | \$ | <u>4,476,112</u> |

4. Southwest Area Workforce Development Board (SAWDB/9293) is the southwest region’s workforce agency that helps hundreds of employers connect with thousands of job seekers each year. The agency offers innovative solutions to assist businesses to succeed in today’s highly competitive workforce, while providing the tools job seekers need to find or advance in their current careers. The board received the following Federal support through the Department in fiscal year 2011:

| | | |
|-----------------------|----|------------------|
| WIA – Adult | \$ | 1,189,854 |
| WIA ARRA – Adult | | 5,351 |
| WIA – Youth | | 965,715 |
| WIA ARRA – Youth | | 32,865 |
| WIA – Dislocated | | 635,280 |
| WIA ARRA – Dislocated | | <u>133,543</u> |
| Total | \$ | <u>2,962,608</u> |

**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**

Celina Bussey, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and the major special revenue funds and the combining and individual funds and related budgetary comparisons presented as supplemental information of New Mexico Department of Workforce Solutions (the Department) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 Department's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, listed as findings 00-13, 05-04, 07-01 and 07-10. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 09-02 and 11-04.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Department, the New Mexico Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Albuquerque, New Mexico
December 14, 2011

**Report on Compliance with Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

Celina Bussey, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

Compliance

We have audited the compliance of New Mexico Department of Workforce Solutions (the Department) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2010. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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 Department'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. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 findings 00-13, 05-04, 08-03, 11-01 and 11-03.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Department'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as findings 00-13, 05-04, 07-01, 08-03, 11-01, 11-02 and 11-03. 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.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management of the Department, the New Mexico Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and federal award and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Albuquerque, New Mexico
December 14, 2011

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

CFDA

| <u>Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|--|
| 17.245 | Trade Adjustment Assistance Workers |
| 17.225 | U.S. Department of Labor – UI Administration |
| ES Cluster: | |
| 17.207 | Employment Services |
| 17.801 | Disabled Veterans' Outreach Program |
| 17.804 | Local Veterans' Employment Representative |
| WIA Cluster: | |
| 17.258 | WIA Adult |
| 17.259 | WIA Youth |
| 17.260 | WIA Dislocated |

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

Section I - Summary of Auditor's Results (continued)

Dollar threshold used to distinguish
between type A and type B programs \$3,000,000

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs - continued

Section II – Financial Statement Findings

00-13 – Employer’s Quarterly Excess Wages (Significant Deficiency)

Condition: The Tax Unit is not consistently identifying inaccurate excess wages reported on the employer’s quarterly wage and contribution reports (ES-903).

Criteria: Per Section 6-5-2, NMSA 1978, the Department should ensure that the amounts of excess wages reported by employers on the ES-903 forms are accurate.

Cause: Lack of an automated system to help identify inaccurate excess wages, and lack of effective manual controls and/or procedures in lieu of an automated system to identify excess wages.

Effect: The Department will collect an incorrect amount of unemployment taxes if the excess wages on the ES-903 reports are not accurate.

Recommendation: We recommend that the Department continues its efforts to develop and implement an automated system that will identify inaccurate excess wages. Additionally, we recommend that the Department develops and implements effective manual procedures to identify inaccurate excess wages until the automated system has been successfully implemented.

Management’s Response: The Department is in the process of implementing a new tax system. The project went live with phase I in February 2011, with full implementation expected by December 2012. Among other applications, the system will have the capability of verifying the wage data for all tax reporting submissions.

05-04 – Delinquent Employer Contribution Report (Significant Deficiency)

Condition: Data in the Tax Application Cooperative System (TACS) is updated on a real-time basis and constantly fluctuates due to the continuous processing of transactions. Consequently, reports generated by TACS for the same time period, including but not limited to the delinquent employer contributions and the related P&I receivables, but run at different times provide dissimilar results. These reports are generated by TACS and, due to the inconsistency of the information provided, cannot be utilized to support receivable balances in the general ledger to create a reliable rollforward or aging report, or to use for management’s valuation of estimates. In addition, previously generated reports cannot be retained in the system for future references and are not saved in a format facilitating subsequent analysis.

Criteria: Per 42 USC 503(a)(1), a system output that can provide accurate charge and collection data should be in place to ensure that receivable balances are accurately reflected in the general ledger.

Cause: Lack of effective procedures to ensure the proper cut-off of data at the end of periods and to retain the generated reports in a format that facilitates subsequent analysis.

Effect: For several years, the Department has fully reserved the delinquent employer contribution and P&I receivables. However, this valuation cannot be supported due to the lack of accurate data related to charges, collections and aging, etc.

Schedule of Findings and Questioned Costs - continued

05-04 – Delinquent Employer Contribution Report (Significant Deficiency) (continued)

Recommendation: Until a new successive TACS with the capability to perform the above-mentioned tasks can be implemented, we recommend the Department create and adapt procedures to ensure the proper cut-off date and time for the receivables data at the end of a period (month/quarter/fiscal year) and retain the generated reports in a format (e.g. MS Excel, MS Access, Text, etc.) that facilitates subsequent analysis and the creation of accurate aging reports.

Management's Response: Currently, the Department assesses subsequent payment and past trends to identify the receivable balance and uncollectible amounts. A new tax system implementation is scheduled for February 2012; however, it is in process and will provide accurate charge and collection data in an "aged" format. This data will enable the Department to more appropriately reserve, identify and account for delinquent balances.

07-01 –Financial Recording, Accounting and Reporting (Significant Deficiency)

Condition: The following were noted during the FY11 audit:

- The Department prepared and posted adjusting journal entries to the Share balance in excess of the expected closing entries
- Incorrect recording of interfund activity related to the Reed Act Funds

Criteria: MAPs (Vol. 1, Chapter 8, Section 3.2) requires monthly reconciliations of all accounts. Individual accounts should be reconciled on a monthly basis and any discrepancies or inconsistencies should be investigated as soon as they are discovered.

Cause: The Department is still in the process of working with DFA to get all audit adjustments posted from the late submissions of the FY07-09 audits. The result of these adjustments not being posted into Share by DFA has caused difficulties in the monthly reconciliations of balance sheet accounts. In addition, the Department is still in the process of establishing effective controls to ensure that all necessary adjustments as a result of monthly reconciliations are being recorded in a timely manner into Share, the official book of record.

Effect: Timely year-end closing process and the FY11 restatement to the beginning fund balances and net assets as a result of incorrect recording of interfund activity related to the Reed Act Funds.

Recommendation: We recommend the Department to continue to work with DFA to get all outstanding prior year JE's. We recommend the Department to continue to establish the necessary internal controls to ensure timely recording of all adjustments during the course of the fiscal year to prevent excessive closing entries.

Management's Response: The Department continues to work with DFA to get previous years' adjustments posted. During fiscal year 2011, \$120 million adjustments were posted to various accounts but there remains a significant number to be posted. However, the adjustments still required are to be made against balance sheet accounts; revenue and expenditure numbers used internally for decision making purposes are reliable and currently require minimal adjustment. The Department may consider implementing its own accounting system if these entries are not posted.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

07-10 – Reconciliation of Agency Funds (Significant Deficiency)

Condition: The Department is not reconciling the Labor and Industrial Wage Claim Fund. The fund has approximately \$270,000 of amounts held for others; however, the Department is uncertain for whom the funds are being held.

Criteria: As a State Agency, the Department must follow the existing Model of Manual Accounting Practices (MAPs) procedures for monthly reconciliations between internal documentation and SHARE (general ledger), as described in MAPs (FIN 11.1-11.9), authorized by Section 6-5-2, NMSA 1978.

Cause: No formal policies or procedures are in place that will walk the accountants through the reconciliation process. The Department has not incorporated MAPs into its policies and procedures.

Effect: The Department is unable to identify the claimants for whom the funds are held.

Recommendation: We recommend the Department create, implement, and monitor a reconciliation process of the Agency Fund.

Management's Response: The Accounts Payable, Accounts Receivable and Labor & Industrial (L&I) Bureau have collectively created the Wage Claim Reconciliation Procedures. The quarterly wage claim reconciliation procedures reflect the quarterly reconciliation of wage claim activities within the Department based on the L&I Bureau's initiated wage claim amounts received from claimant employers and subsequent disbursements to the claimant and/or claimant's employer. Prior to 2004, however there was no documentation maintained to identify activity. The process to identify claimants is ongoing.

Schedule of Findings and Questioned Costs - continued

Section III – Federal Award Findings and Questioned Costs

00-13 – Employer’s Quarterly Excess Wages (Significant Deficiency)

Condition: The Tax Unit is not consistently identifying inaccurate excess wages reported on the employer’s quarterly wage and contribution reports (ES-903). This is applicable to CFDA 17.225–UI Administration.

Criteria: Per Section 6-5-2, NMSA 1978, the Department should ensure that the amounts of excess wages reported by employers on the ES-903 forms are accurate.

Cause: Lack of an automated system to help identify inaccurate excess wages, and lack of effective manual controls and/or procedures in lieu of an automated system to identify excess wages.

Effect: The Department will collect an incorrect amount of unemployment taxes if the excess wages on the ES-903 reports are not accurate.

Recommendation: We recommend that the Department continues its efforts to develop and implement an automated system that will identify inaccurate excess wages. Additionally, we recommend that the Department develops and implements effective manual procedures to identify inaccurate excess wages until the automated system has been successfully implemented.

Management’s Response: The Department is in the process of implementing a new tax system. The project went live with phase I in February 2011, with full implementation expected by December 2012. Among other applications, the system will have the capability of verifying the wage data for all tax reporting submissions.

05-04 – Delinquent Employer Contribution Report (Significant Deficiency)

Condition: Data in the Tax Application Cooperative System (TACS) is updated on a real-time basis and constantly fluctuates due to the continuous processing of transactions. Consequently, reports generated by TACS for the same time period, including but not limited to the delinquent employer contributions and the related P&I receivables, but run at different times provide dissimilar results. These reports are generated by TACS and, due to the inconsistency of the information provided, cannot be utilized to support receivable balances in the general ledger to create a reliable rollforward or aging report, or to use for management’s valuation of estimates. In addition, previously generated reports cannot be retained in the system for future references and are not saved in a format facilitating subsequent analysis. This is applicable to CFDA 17.225-UI Administration.

Criteria: Per 42 USC 503(a)(1), a system output that can provide accurate charge and collection data should be in place to ensure that receivable balances are accurately reflected in the general ledger.

Cause: Lack of effective procedures to ensure the proper cut-off of data at the end of periods and to retain the generated reports in a format that facilitates subsequent analysis.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

05-04 – Delinquent Employer Contribution Report (Significant Deficiency) (continued)

Effect: For several years, the Department has fully reserved the delinquent employer contribution and P&I receivables. However, this valuation cannot be supported due to the lack of accurate data related to charges, collections and aging, etc.

Recommendation: Until a new successive TACS with the capability to perform the above-mentioned tasks can be implemented, we recommend the Department create and adapt procedures to ensure the proper cut-off date and time for the receivables data at the end of a period (month/quarter/fiscal year) and retain the generated reports in a format (e.g. MS Excel, MS Access, Text, etc.) that facilitates subsequent analysis and the creation of accurate aging reports.

Management's Response: Currently, the Department assesses subsequent payment and past trends to identify the receivable balance and uncollectible amounts. A new tax system implementation is scheduled for February 2012; however, it is in process and will provide accurate charge and collection data in an "aged" format. This data will enable the Department to more appropriately reserve, identify and account for delinquent balances.

07-01 –Financial Recording, Accounting and Reporting (Significant Deficiency)

Condition: The following were noted during the FY11 audit and are applicable to all federal award programs (see Schedule of Expenditures of Federal Awards for program names and CFDA numbers):

- The Department prepared and posted adjusting journal entries to the Share balance in excess of the expected closing entries
- Incorrect recording of interfund activity related to the Reed Act Funds

Criteria: MAPs (Vol. 1, Chapter 8, Section 3.2) requires monthly reconciliations of all accounts. Individual accounts should be reconciled on a monthly basis and any discrepancies or inconsistencies should be investigated as soon as they are discovered.

Cause: The Department is still in the process of working with DFA to get all audit adjustments posted from the late submissions of the FY07-09 audits. The result of these adjustments not being posted into Share by DFA has caused difficulties in the monthly reconciliations of balance sheet accounts. In addition, the Department is still in the process of establishing effective controls to ensure that all necessary adjustments as a result of monthly reconciliations are being recorded in a timely manner into Share, the official book of record.

Effect: Timely year-end closing process and the FY11 restatement to the beginning fund balances and net assets as a result of incorrect recording of interfund activity related to the Reed Act Funds.

Recommendation: We recommend the Department to continue to work with DFA to get all outstanding prior year JE's. We recommend the Department to continue to establish the necessary internal controls to ensure timely recording of all adjustments during the course of the fiscal year to prevent excessive closing entries.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

07-01 –Financial Recording, Accounting and Reporting (Significant Deficiency) (continued)

Management's Response: The Department continues to work with DFA to get previous years' adjustments posted. During fiscal year 2011, \$120 million adjustments were posted to various accounts but there remains a significant number to be posted. However, the adjustments still required are to be made against balance sheet accounts; revenue and expenditure numbers used internally for decision making purposes are reliable and currently require minimal adjustment. The Department may consider implementing its own accounting system if these entries are not posted.

08-03 – Federal Grant Reporting (Significant Deficiency)

Condition: During A-133 single audit reporting testwork, the following exceptions were noted regarding federal reporting:

Unemployment Insurance CFDA 17.225:

- 9 of 23 reports (ETA9130, ETA581, ETA2208a, ETA191, ETA2112) tested were not submitted timely

WIA Cluster CFDA's 17.258/17.259/17.260:

- 5 of 93 reports (ETA9130) tested were not adequately supported
- 1 of 93 reports (ETA9130) tested was not submitted timely

Criteria: Per OMB Circular A-133, *Compliance Requirements Reporting – Financial Reporting*, the Department is required to maintain reports specified by the Federal agency. In addition, A-102 Common Rule requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements

Cause: Failure or lack of internal controls over reporting requirements established by the Federal government.

Effect: The Department is in violation of grant requirements.

Auditor's Recommendation: We recommend that management establish effective controls necessary to ensure the maintenance of reports mandated by the federal government for state agencies receiving federal funds

Management's Response: The Department did experience the submission of late reports in the UI Bureau. The UI Treasury Unit experienced staffing issues coupled with new reporting requirements due to the increase in claimants and continuing benefit extensions. The Department will require cross-training for all reporting activity. Currently, all reports are due for review within 72 hours of the reporting deadline. Overtime will be required when reports are not ready within this timeline.

The Department will implement a post review system of all current activity with related reports to ensure that support is available and complete; timely corrections will be made as needed.

Schedule of Findings and Questioned Costs - continued

08-03 – Federal Grant Reporting (Significant Deficiency) (continued)

The late WIA report was initially submitted within the deadline but later revised. This data was not kept in the reporting system and the documents were replaced with the revised data. In the future, the Department will maintain copies of all original submission so that timeline compliance may be supported.

11-01 – Travel to Training Reimbursements, Compliance and Internal Control (Significant Deficiency)

Condition: During the review of the travel to training reimbursements under the TAA program (CFDA 17.245) it was determined that the Department's template used to calculate reimbursements amounts was using the FY09 federal per diem rates. It was noted that on 16 of 40 vouchers tested, the reimbursement amount was incorrect. In addition, it was noted that on 1 out of 40 vouchers tested, the number of days the participant was to be reimbursed was incorrect. As a result, reimbursements were less than the allowable amount. For FY11, it was estimated the reimbursements were less than the allowable amount by approximately \$35,000 in total.

Criteria: Per 20 CFR part 617 Payments shall not exceed the lesser of: the actual per diem expenses or 50 percent of the per diem rate authorized under the federal travel regulations for the locale of the training. In addition, A-102 Common Rule requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements

Cause: Failure or lack of internal controls over the reimbursement process to ensure current per diem rates are used in the calculation of the reimbursement amount.

Effect: Non-compliance with federal grant regulations, incorrect reimbursements to participants.

Auditor's Recommendation: We recommend that management establish effective controls necessary to ensure accurate reimbursements and compliance with the federal grant regulations.

Management's Response: The Department will reevaluate reimbursement calculations annually to ensure compliance with current federal regulations.

11-02 – Internal Control Over Federally Suspended/Debarred Vendors (Significant Deficiency)

Condition: During A-133 single audit suspended/debarred vendor testwork, it was noted that for 8 of 8 contracts reviewed there was no evidence that the Department verified the vendor was not included in the federally *Excluded Parties Listing System* (EPLS) prior to awarding the contract. This is applicable to CFDA's 17.225, 17.258/17.259/17.260, and 17.207/17.801/17.807.

Schedule of Findings and Questioned Costs - continued

**11-02 – Internal Control Over Federally Suspended/Debarred Vendors (Significant Deficiency)
(continued)**

Criteria: A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. A-133 prohibits non-Federal entities from contracting with or making sub awards under covered transactions that are suspended or debarred or whose principals are suspended or debarred.

Cause: Lack of effective internal controls associated with procurement function associated with federal grant funds.

Effect: Possible non-compliance with federal grant regulations.

Recommendation: We recommend that management establish effective controls over the procurement function that requires staff to determine that entities receiving sub awards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination; i.e., checking the *Excluded Parties Listing System* (EPLS), which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement.

Management's Response: The Department will implement a policy whereby proposed vendors are checked for suspension/debarment prior to submitting a contract for legal review.

A statement requesting verification that the vendor is neither suspended nor debarred will be written into an article of all future contracts for certification by the vendor.

**11-03 – Benefit Accuracy Measurement (BAM) Sampling, Compliance and Internal Control
(Significant Deficiency)**

Condition: During BAM testwork the BAM department could not locate 1 of the 40 files selected for sampling. BAM unit did not complete the 150 monetary denial cases required for the year. The BAM unit only completed 143 by year end. This is applicable to CFDA 17.225–UI Administration.

Criteria: Per BAM Methodology and Program Description found on the federal website, State BAM samples must consist of 480 paid cases and 150 cases for each of the three types of denials monetary, separation, and nonseparation.

Cause: Lack of effective internal controls associated with maintaining the location of files investigated and verifying the BAM department is meeting its required sample of cases tested during the year.

Effect: Non-compliance with federal grant regulations.

Schedule of Findings and Questioned Costs - continued

11-03 – Benefit Accuracy Measurement (BAM) Sampling, Compliance and Internal Control
(Significant Deficiency) (continued)

Recommendation: We recommend that management establish effective controls over maintenance of the case files and the tracking of the types of cases reviewed to ensure compliance with the federal regulations.

Management's Response: The Department will establish a policy with related procedures to ensure that case files are available and that the appropriate reviews for each case type have been performed.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

Section IV – Other Findings

09-02 – Untimely Deposit of Cash Receipts (Other)

Condition: During the internal controls test work for cash receipts, it was noted that 4 out of 22 cash receipts for a total of \$8,308 was not deposited within 24 hours of receipt

Criteria: According to the Manual of Model Accounting Practices (MAPs), section FIN 2.3 states that all state agencies shall deposit cash within 24 hours of receipt.

Cause: Lack of effective controls surrounding the cash receipts process, management oversight.

Effect: Misstatement of financial information, potential misappropriation of assets.

Recommendation: We recommend that management establish controls necessary to ensure that all cash received is deposited by the end of the next business day. If errors are noted in the cash received, controls should also exist to correct the errors to ensure that cash is not held for a period longer than 24 hours. If errors cannot be corrected within 24 hours, the Department should return the cash until the errors can be corrected or any problems are resolved.

Management's Response: Procedures have been initiated to ensure that checks with processing issues are processed by close of business the day following receipt. The checks will either be processed into the system or returned to the employer within that time frame.

11-04 – Travel and Per Diem Reimbursements (Other)

Condition: During the compliance testwork with the per diem and mileage act it was noted that on 1 of 22 vouchers a reimbursement was made for a magazine.

Criteria: According to the Regulations Governing the Per Diem and Mileage Act 2.42.2 NMAC reimbursements of actual expenses in lieu of per diem rates are allowable for actual expenses for meals and lodging only.

Cause: Lack of effective controls surrounding the reimbursement process, management oversight.

Effect: Non compliance with the Per Diem and Mileage Act.

Recommendation: We recommend that management establish controls necessary to ensure that reimbursements for travel and per diem are allowable and in compliance with the Per Diem and Mileage Act.

Management's Response: The Department continues training efforts to resolve per- diem and reimbursement issues.

Summary Schedule of Prior Year Audit Findings

- 00-13 - Employer's Quarterly Excess Wages – Repeated
- 05-04 - Delinquent Employer Contribution Report – Repeated
- 07-01 - Financial Recording, Accounting and Reporting – Repeated/Updated
- 07-07 - Disposition of Property – Resolved
- 07-09 - Reversions to the State General Fund – Resolved
- 07-10 - Reconciliation of Agency Fund – Repeated/Updated
- 08-03 – Federal Grant Reporting – Repeated/Updated
- 08-05 - Capital Asset Transfers/Disposals Recorded at Time of Physical Inventory – Resolved
- 08-06 - Lack of Formal Disaster Recovery Plan – Resolved
- 08-07 - System Access for Terminated Employees – Resolved
- 09-02 – Untimely Deposits of Cash Receipts – Repeated/Updated
- 09-03 - Incomplete Per Diem Meal Receipts – Resolved
- 10-01 - Unemployment Claims Overpayment – Resolved
- 10-02 – Inadequately Reviewed Reports – Resolved

Exit Conference

An exit conference was held with the Department on December 14, 2011. The conference was held at the Department's offices in Albuquerque, New Mexico. In attendance were:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Celina Bussey, Cabinet Secretary
Sara Lister, Deputy Secretary
Donna Trujillo, Chief Financial Officer
Aaron Hinds, Chief Information Officer
Jackie Ingle, Chief of Staff
Marshall Ray, General Counsel
Susan Aragon, Grants Unit Manager
Cynthia Brindley, Budget Director

CLIFTON GUNDERSON LLP

Georgie Ortiz, CPA, CGFM, Assurance Principal
Matt Bone, CPA, CGFM, Assurance Manager
Cammie Archuleta, Assurance Staff

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Department and are the responsibility of management, as addressed in the Independent Auditors' Report.