

**STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY**

Annual Financial Report  
For the Year Ended June 30, 2009  
(With Independent Auditors' Report Thereon)

## INTRODUCTORY SECTION

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 June 30, 2009

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EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Official Roster  
as of June 30, 2009

BOARD OF DIRECTORS

| <u>Name</u>                        | <u>Title</u>  |
|------------------------------------|---------------|
| Salvador Reyes                     | Chairman      |
| Debbie Kilfoy                      | Secretary     |
| Wayne Sandoval                     | Director      |
| Dan Dennison                       | Vice Chairman |
| Bill Sapien (resigned)             | Director      |
| Jack Torres (replaced Bill Sapien) | Treasurer     |

ADMINISTRATIVE OFFICIALS

|             |                    |
|-------------|--------------------|
| Larry Blair | Executive Engineer |
| Gary Young  | Accountant         |

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
State of New Mexico, Eastern Sandoval County  
Arroyo Flood Control Authority  
And  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparisons for the general fund, the capital projects fund, and debt service fund, of the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority (ESCAFCA or Authority), as of and for the year ended June 30, 2009, which collectively comprise the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority's basic financial statements as listed in the table of contents. We also have audited the information presented as supplementary information as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 2A., the financial statements of the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority are intended to present the financial position and changes in financial position of only that portion of the governmental activities and major fund information of the State of New Mexico that is attributable to the transactions of the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

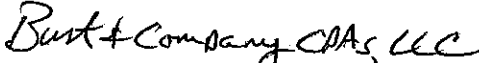
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the State of New

Mexico, Eastern Sandoval County Arroyo Flood Control Authority, as of June 30, 2009, and the respective changes in financial position, thereof and the respective budgetary comparisons for the major 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 November 30, 2010 on our consideration of the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary 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. The additional schedule listed as "Supplemental Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the 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.

  
Burt & Company CPAs, LLC

November 30, 2010

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Management's Discussion and Analysis  
June 30, 2009

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis are intended to serve as an introduction to the Eastern Sandoval County Arroyo Flood Control Authority's (The Authority or ESCAFCA) financial statements. The financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Authority has three major funds.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving. The statement of activities presents information showing how the Authority's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that has been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority has one general fund, the capital projects fund, and the debt service fund. Budgetary comparison statements have been provided to demonstrate compliance with the budgets. The Authority is in compliance with its budgetary requirements.

**Notes to the Financial Statements**

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements.

**OVERVIEW OF THE AUTHORITY ACTIVITY**

Although the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority (ESCAFCA or Authority) was legislated in prior years, in many respects, fiscal year (FY)09 was the startup year. It was marked by relatively few, but very important, financial transactions, and several important actions leading to future operations. From July 2008 to November 2008, the appointed Board worked on passage of a \$6 million bond issue. In November 2008, the bond issue passed, and all five appointed Board members were elected without opposition. In January 2009, the Board contracted for services of an Executive Engineer to manage its administrative and engineering operations. This position was instrumental in developing, along with the Board, operating procedures for the Board, and for the projects that the new ESCAFCA will endeavor to undertake during the first few years of operation. In February 2009, the first operating budget was adopted to cover the



STATE OF NEW MEXICO  
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 Management's Discussion and Analysis  
 June 30, 2009

remainder of the fiscal year. In March 2009, the Board selected First Community Bank as its main fiscal agent; contracted with an accountant; and arranged for a \$100,000 loan from the Town of Bernalillo to carry on operations until the first tax revenues would arrive, projected to be December 2009. In May 2009, the Board adopted three budgets for FY 2010: Operating; Debt Service; and Project Fund. It also contracted for two professional specialties: public relations and the drafting of drainage regulations. In June 2009, \$3 million in bonds were authorized and issued with Zion National Bank as the Bonding agent, allowing the Authority to begin working on the planning, design, and future construction of flood control/mitigation measures. FY 2009 was the establishment of the Board, along with its contracted staff, laying the foundation, both operationally and financially, for the future and continued operations of ESCAFCA.

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Activities in FY09 consisted of establishing the bank accounts, consisting of the Operating, Projects, and Debt Service fund checking accounts, to coincide with those three main funds in the ESCAFCA. In March, 2009, the Town of Bernalillo loaned ESCAFCA \$100,000 at 3% simple interest, to get the authority started, and to cover expenditures in anticipation of tax revenues to be generated by the Eastern Sandoval County taxpayers. Loan proceeds were deposited into the Operating Fund. The first bond issue for ESCAFCA was sold in June, 2009, with the proceeds deposited into the Projects Fund. A \$100 transfer was made to the Debt Service to cover bank charges while waiting for the first tax deposit. The results of first year operations are as follows:

Statement of Net Assets - FY09

|                          |                     |
|--------------------------|---------------------|
| Assets:                  |                     |
| Cash                     | \$ 3,077,782        |
| Bond issue cost, net     | 18,148              |
| Total assets             | \$ <u>3,095,930</u> |
| Liabilities:             |                     |
| Accounts payable         | \$ 37,036           |
| Related party payable    | 1,900               |
| Accrued interest payable | 1,000               |
| Short-term note payable  | 100,000             |
| Bonds payable            | <u>3,000,000</u>    |
| Total liabilities        | <u>3,139,936</u>    |

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Management's Discussion and Analysis (continued)  
 June 30, 2009

|                      |                    |
|----------------------|--------------------|
| Net Assets:          |                    |
| Restricted:          |                    |
| For capital projects | 2,992,455          |
| For debt service     | (2,999,900)        |
| Unrestricted         | (36,561)           |
| Total net assets     | \$ <u>(44,006)</u> |

Statement of Activities - FY09

|                           |                    |
|---------------------------|--------------------|
| Total general revenues    | \$ 439             |
| Expenditures              |                    |
| Current                   |                    |
| General government        | 44,445             |
| Change in net assets      | (44,006)           |
| Net assets, July 1, 2008  | -                  |
| Net assets, June 30, 2009 | \$ <u>(44,006)</u> |

The statements show the minimal activity of FY09. Expenditures include contractor charges for the Interim Executive Engineer, Wilson and Co. – project engineers, The Hartford for bonding insurance, and Board of Directors per diem. All expenditures were under the FY09 budgeted amounts.

As this is the initial year of financial transactions for ESCAFCA, no prior period history exists for further analysis or comparisons other than that presented in this discussion, comparative analysis will be provided in future years when prior year information is available.

**BUDGETARY PERFORMANCE**

The formal budget for the operational portion of fiscal year 2009 was not submitted to the Department of Finance and Administration until March of 2009 as most economic transactions occurred late in the fiscal year. No revenues were recognized in fiscal year 2009 as the timing of the ad valorem assessments did not coincide with the timing of the bond issuance. The expenditures related to the Authority in fiscal year 2009 were funded from the proceeds of the loan from the Town of Bernalillo which did not have statutory budget requirements associated with it. Final budget to actual budget basis variances are due to anticipated expenses that were not incurred as of June 30, 2009.

**PLANS FOR FUTURE ACTIVITY**

Planning and design for future infrastructure projects is currently underway. The Authority plans to expend significantly more in fiscal year 2010 to enable the continued progress on projects in process. The Board of Directors will continue to monitor the progress of these current projects and make a determination as to when the next series of bonds authorized will need to be issued to fund the projects. In addition, the Board is looking into leasing office space and contracting for needed professionals to manage and administer the operations of the Authority.

**BASIC FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Statement of Net Assets  
 June 30, 2009

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets:</b>                                    |                                    |
| Cash  | \$ 3,077,782                       |
| Bond issue costs, net of accumulated amortization | <u>18,148</u>                      |
| Total assets                                      | <u>\$ 3,095,930</u>                |
| <br><b>Liabilities:</b>                           |                                    |
| Accounts payable                                  | \$ 37,036                          |
| Accrued interest payable                          | 1,000                              |
| Related party payable                             | 1,900                              |
| Short-term note payable                           | 100,000                            |
| General obligation bonds payable                  |                                    |
| Portion due after one year                        | <u>3,000,000</u>                   |
| Total liabilities                                 | <u>3,139,936</u>                   |
| <br><b>Net Assets:</b>                            |                                    |
| <b>Restricted:</b>                                |                                    |
| For capital projects                              | 2,992,455                          |
| For debt service                                  | (2,999,900)                        |
| Unrestricted                                      | <u>(36,561)</u>                    |
| Total net assets                                  | <u>\$ (44,006)</u>                 |

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

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Statement of Activities  
 For the Year Ended June 30, 2009

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| Program expenses:                              |                                    |
| Public Works:                                  |                                    |
| Planning and engineering                       | \$ 7,681                           |
| General and administrative expenses            | 1,307                              |
| Contractual operating and maintenance services | 31,223                             |
| Election expense                               | 3,134                              |
| Interest                                       | <u>1,000</u>                       |
| Total program expenses                         | <u>44,345</u>                      |
| General revenues:                              |                                    |
| Interest income                                | <u>339</u>                         |
| Total general revenues                         | <u>339</u>                         |
| Decrease in net assets                         | (44,006)                           |
| Net assets, beginning of year                  | <u>-</u>                           |
| Net assets, end of year                        | \$ <u>(44,006)</u>                 |

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

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Balance Sheet  
 Governmental Funds  
 June 30, 2009

|  | Major Funds      |                             |                         |                                     |
|--|------------------|-----------------------------|-------------------------|-------------------------------------|
|  | General<br>Fund  | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund | Total<br>Govern-<br>mental<br>Funds |
| <b>Assets:</b>                                 |                  |                             |                         |                                     |
| Cash   | \$ 77,546        | 3,000,136                   | 100                     | 3,077,782                           |
| Total assets                                   | <u>\$ 77,546</u> | <u>3,000,136</u>            | <u>100</u>              | <u>3,077,782</u>                    |
| <b>Liabilities and fund balances:</b>          |                  |                             |                         |                                     |
| <b>Liabilities:</b>                            |                  |                             |                         |                                     |
| Accounts payable                               | \$ 11,207        | 25,829                      | -                       | 37,036                              |
| Related party payable                          | 1,900            | -                           | -                       | 1,900                               |
| Accrued interest payable                       | 1,000            | -                           | -                       | 1,000                               |
| Short-term note payable                        | <u>100,000</u>   | <u>-</u>                    | <u>-</u>                | <u>100,000</u>                      |
| Total liabilities                              | <u>114,107</u>   | <u>25,829</u>               | <u>-</u>                | <u>139,936</u>                      |
| <b>Fund Balances:</b>                          |                  |                             |                         |                                     |
| Reserved for debt service                      | -                | -                           | 100                     | 100                                 |
| Reserved for capital projects                  | -                | 2,974,307                   | -                       | 2,974,307                           |
| <b>Unreserved:</b>                             |                  |                             |                         |                                     |
| Designated for subsequent year<br>expenditures | <u>(36,561)</u>  | <u>-</u>                    | <u>-</u>                | <u>(36,561)</u>                     |
| Total fund balances                            | <u>(36,561)</u>  | <u>2,974,307</u>            | <u>100</u>              | <u>2,937,846</u>                    |
| Total liabilities and fund<br>balances         | <u>\$ 77,546</u> | <u>3,000,136</u>            | <u>100</u>              | <u>3,077,782</u>                    |

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

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Reconciliation of the Governmental Funds Balance Sheet to the  
 Government-Wide Statement of Net Assets  
 June 30, 2009

Total fund balances - governmental funds (Balance Sheet) \$ 2,937,846

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

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

|                                  |                             |             |
|----------------------------------|-----------------------------|-------------|
| General obligation bonds payable | \$ (3,000,000)              |             |
| Accrued interest payable         | -                           |             |
| Accrued compensated absences     | -                           |             |
| Total liabilities                | <u>                    </u> | (3,000,000) |

|  |               |
|--|---------------|
| Bond issue costs are expensed in the period expended for fund financial statements but are capitalized for governmental activities | <u>18,148</u> |
|--|---------------|

Total net assets (Statement of Net Assets) \$ (44,006)

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

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended June 30, 2009

|  | Major Funds        |                             |                         | Total<br>Governmen-<br>tal<br>Funds |
|--|--------------------|-----------------------------|-------------------------|-------------------------------------|
|  | General<br>Fund    | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund |                                     |
| Revenues:  |                    |                             |                         |                                     |
| Ad valorem assessments                               | \$ -               | -                           | -                       | -                                   |
| Interest income                                      | 203                | 136                         | -                       | 339                                 |
| Total revenues                                       | <u>203</u>         | <u>136</u>                  | <u>-</u>                | <u>339</u>                          |
| Expenditures:  |                    |                             |                         |                                     |
| Current:   |                    |                             |                         |                                     |
| General government                                   | 36,664             | 7,681                       | -                       | 44,345                              |
| Debt service   |                    |                             |                         |                                     |
| Principal  | -                  | -                           | -                       | -                                   |
| Interest   | -                  | -                           | -                       | -                                   |
| Bond issuance costs                                  | -                  | 18,148                      | -                       | 18,148                              |
| Total expenditures                                   | <u>36,664</u>      | <u>25,829</u>               | <u>-</u>                | <u>62,493</u>                       |
| Excess (deficiency) of revenues<br>over expenditures | (36,461)           | (25,693)                    | -                       | (62,154)                            |
| Other financing sources (uses)                       |                    |                             |                         |                                     |
| Transfers from (to) other funds                      | (100)              | -                           | 100                     | -                                   |
| Bond proceeds  | -                  | 3,000,000                   | -                       | 3,000,000                           |
| Total other financing sources                        | <u>(100)</u>       | <u>3,000,000</u>            | <u>100</u>              | <u>3,000,000</u>                    |
| Net change in fund balances                          | (36,561)           | 2,974,307                   | 100                     | 2,937,846                           |
| Fund balances, beginning of year                     | -                  | -                           | -                       | -                                   |
| Fund balances, end of year                           | \$ <u>(36,561)</u> | <u>2,974,307</u>            | <u>100</u>              | <u>2,937,846</u>                    |

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



STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balance of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2009

|   |                    |
|---|--------------------|
| Net change in fund balances - governmental funds (Statement of Revenues,<br>Expenditures and Changes in Fund Balances)                                      | \$ 2,937,846       |
| Amounts reported for governmental activities in the Statement of Activities<br>are different because:   |                    |
| Bond proceeds provide current financial resources to governmental funds, but<br>issuing debt increases long-term liabilities in the statement of net assets | (3,000,000)        |
| Current year bond issue costs are reported as an expense in the fund financial<br>statements but are capitalized in the statement of activities             | <u>18,148</u>      |
| Decrease in net assets of governmental activities (Statement of Activities)   | \$ <u>(44,006)</u> |

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

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)  
Budget and Actual - General Fund  
For the Year Ended June 30, 2009

|  | <u>Budgeted Amounts</u> |              | Actual Budget<br>Basis | Variance                   |
|--|-------------------------|--------------|------------------------|----------------------------|
|  | <u>Original</u>         | <u>Final</u> |                        | Favorable<br>(Unfavorable) |
| <b>Revenues:</b>   |                         |              |                        |                            |
| Ad valorem assessments   | \$ -                    | -            | -                      | -                          |
| Interest income  | -                       | -            | 203                    | 203                        |
| Total revenues   | -                       | -            | 203                    | 203                        |
| Total revenues budgeted  | \$ -                    | -            |                        |                            |
| <b>Expenditures:</b>   |                         |              |                        |                            |
| General government   | \$ 71,450               | 71,450       | 36,764                 | 34,686                     |
| Total expenditures   | \$ 71,450               | 71,450       | 36,764                 | 34,686                     |
| <b>Reconciliation of GAAP basis to budgetary basis revenue:</b>      |                         |              |                        |                            |
| GAAP basis revenue   |                         |              | \$ 203                 |                            |
| Adjustments: None  |                         |              | -                      |                            |
| Budget basis revenue   |                         |              | \$ 203                 |                            |
| <b>Reconciliation of GAAP basis to budgetary basis expenditures:</b> |                         |              |                        |                            |
| GAAP basis expenditures  |                         |              | \$ 36,764              |                            |
| Adjustments  |                         |              | -                      |                            |
| Budget basis expenditures  |                         |              | \$ 36,764              |                            |

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

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)  
 Budget and Actual - Capital Projects Fund  
 For the Year Ended June 30, 2009

|  | <u>Budgeted Amounts</u> |              | Actual Budget<br>Basis  | Variance                   |
|--|-------------------------|--------------|-------------------------|----------------------------|
|  | <u>Original</u>         | <u>Final</u> |                         | Favorable<br>(Unfavorable) |
| <b>Revenues:</b>   |                         |              |                         |                            |
| Bond proceeds  | \$ -                    | -            | 3,000,000               | 3,000,000                  |
| Ad valorem assessments   | -                       | -            | -                       | -                          |
| Interest income  | -                       | -            | 136                     | 136                        |
|  | <u>-</u>                | <u>-</u>     | <u>136</u>              | <u>136</u>                 |
| <b>Total revenues</b>  | <b>\$ -</b>             | <b>-</b>     | <b><u>3,000,136</u></b> | <b><u>3,000,136</u></b>    |
| <b>Total revenues budgeted</b>                                       | <b>\$ -</b>             | <b>-</b>     |                         |                            |
| <b>Expenditures:</b>   |                         |              |                         |                            |
| General government   | \$ -                    | -            | 25,829                  | (25,829)                   |
|  | <u>-</u>                | <u>-</u>     | <u>25,829</u>           | <u>(25,829)</u>            |
| <b>Total expenditures</b>  | <b>\$ -</b>             | <b>-</b>     | <b><u>25,829</u></b>    | <b><u>(25,829)</u></b>     |
| <b>Reconciliation of GAAP basis to budgetary basis revenue:</b>      |                         |              |                         |                            |
| GAAP basis revenue   |                         |              | \$ 136                  |                            |
| Adjustments: Bond proceeds   |                         |              | <u>3,000,000</u>        |                            |
| Budget basis revenue   |                         |              | <u>\$ 3,000,136</u>     |                            |
| <b>Reconciliation of GAAP basis to budgetary basis expenditures:</b> |                         |              |                         |                            |
| GAAP basis expenditures  |                         |              | \$ 7,681                |                            |
| Adjustments: Capitalized costs                                       |                         |              | <u>18,148</u>           |                            |
| Budget basis expenditures  |                         |              | <u>\$ 25,829</u>        |                            |

There was no budget established for the Capital Projects Fund for the year ended June 30, 2009.

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

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)  
 Budget and Actual - Debt Service Fund  
 For the Year Ended June 30, 2009

|  | <u>Budgeted Amounts</u> |          | Actual Budget<br>Basis | Variance                   |
|--|-------------------------|----------|------------------------|----------------------------|
|  | Original                | Final    |                        | Favorable<br>(Unfavorable) |
| <b>Revenues:</b>   |                         |          |                        |                            |
| Ad valorem assessments   | \$ -                    | -        | -                      | -                          |
| Transfers in   | -                       | -        | 100                    | 100                        |
| Interest income  | -                       | -        | -                      | -                          |
| Total revenues   | \$ <u>-</u>             | <u>-</u> | <u>100</u>             | <u>100</u>                 |
| Total revenues budgeted  | \$ <u>-</u>             | <u>-</u> |                        |                            |
| <b>Expenditures:</b>   |                         |          |                        |                            |
| General government   | \$ -                    | -        | -                      | -                          |
| Total expenditures   | \$ <u>-</u>             | <u>-</u> | <u>-</u>               | <u>-</u>                   |
| <b>Reconciliation of GAAP basis to budgetary basis revenue:</b>      |                         |          |                        |                            |
| GAAP basis revenue   |                         |          | \$ 100                 |                            |
| Adjustments: None  |                         |          | <u>-</u>               |                            |
| Budget basis revenue   |                         |          | \$ <u>100</u>          |                            |
| <b>Reconciliation of GAAP basis to budgetary basis expenditures:</b> |                         |          |                        |                            |
| GAAP basis expenditures  |                         |          | \$ -                   |                            |
| Adjustments  |                         |          | <u>-</u>               |                            |
| Budget basis expenditures  |                         |          | \$ <u>-</u>            |                            |

There was no budget established for the Debt Service Fund for the year ended June 30, 2009.

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

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements  
June 30, 2009

1. History and Functions

The State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority (ESCAFCA or Authority) was created by the Eastern Sandoval County Arroyo Flood Control Act of 2007 (the Act) and is governed by such New Mexico law created there under designated as 72-20-1 to 72-20-103 NMSA 1978. The purpose of the Act is to provide a flood control system for the benefit of property within the boundaries of the Authority within Eastern Sandoval County, New Mexico. The Act provides for organization and the governing body and officers; provides for flood control facilities; specifies provisions relating to powers, duties, privileges, liabilities, loans, securities, taxes, revenues and finances; and prescribes relations with other government bodies and agencies. The Authority is a political subdivision of the State of New Mexico and a body corporate and politic, as well as a quasi-municipal corporation.

2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to the government-wide financial statements, unless they conflict with GASB pronouncements. The more significant of the Authority's accounting policies are described below:

A. Reporting Entity

The Authority's basic financial statements include the accounts of all Authority operations which are financially accountable to the Board of Directors. The Authority does not have component units.

B. Basic Financial Statements - Government-Wide Statements

The Authority's basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Authority is a single purpose government entity and has no business type activities or fiduciary funds. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts: restricted net assets, and unrestricted net assets.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2009

2. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements - Government-Wide Statements (continued)

When applicable, the effect of inter-fund activity between two funds is removed from the Statement of Net Assets in order to avoid a grossing-up effect on the assets and liabilities within the statement.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government), which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense by related general revenues. General revenues include: 1) ad valorem assessments, and 2) interest income. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. The revenue recognition policy for grants is when the eligibility requirements have been met, and costs have been incurred.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Authority would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

C. Basic Financial Statements - Fund Financial Statements

The fund financial statements emphasis are on the major funds of the governmental category. The GASB 34 reporting model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The Authority, at its discretion, may elect to present a fund as a major fund, and has elected to present all three of its funds, the general fund, the capital projects fund, and the debt service fund, as major funds. There were no non-major funds.

The financial transactions of the Authority are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets,

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2009

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements (continued)

liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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. Governmental funds present a summary of sources and uses of available spendable resources during a period and are on the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

Revenues are recognized as soon as they are both measurable and available. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

The Authority uses the following fund types:

**GOVERNMENTAL FUND TYPES**

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund is used to account for the financial resources used for the acquisition and construction of major flood control system projects and related costs.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2009

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements (continued)

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources and for the payment of interest and principal on long-term general obligation bonds.

D. Basis of Accounting

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

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenditures are recognized when incurred, regardless of the timing of the related cash flows.

The governmental funds in the fund financial statements are presented on a current financial resource measurement focus using the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

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

E. Budgets and Budgetary Accounting

The Authority follows defined procedures in establishing the budgetary data reflected in the financial statements. Each year the Authority determines amounts required for construction, maintenance, operations and debt service expenditures. Budget amounts are as originally adopted and as amended by the Board of Directors, and approved by the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA). The Authority submits a proposed budget to DFA for the fiscal year commencing the following July 1. DFA must approve the budget prior to its legal enactment.



STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2009

2. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting (continued)

To meet legal compliance actual expenditures cannot exceed the total budgeted expenditures for the fund. Adjustments to the budget must be submitted to and approved by DFA in the form of a "budget adjustment request." The Authority does not use encumbrances.

The budget is prepared on the cash basis, which differs from GAAP. Budgetary comparisons presented in these financial statements are on this Non-GAAP cash budgetary basis.

In accordance with the requirements of Section 2.2.2.10.A (2) (b) of 2.2.2 NMAC Requirements for Contracting and Conducting Audits of Agencies and the allowance made by GASB 34, footnote 53, the budgetary comparison statements for major funds have been included as part of the basic financial statements.

F. Reservations and Designations - Fund Balance

Reservations of fund balance in the governmental fund statements are created to either 1) satisfy legal covenants that require that a portion of the fund balance be segregated, or 2) identify the portion of the fund balance that is not available for future expenditures.

G. Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as restricted and unrestricted.

Restricted Assets - are liquid assets, which have third-party (statutory enabling legislation or granting agency) limitation on their use, and which are legally enforceable as to their use.

Unrestricted Assets - represent unrestricted liquid assets.

The Authority allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

H. 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

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2009

2. Summary of Significant Accounting Policies (continued)

H. Use of Estimates (continued)

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.

3. Cash and Collateral

Cash at June 30, 2009 represents amounts deposited in commercial bank accounts.

The Authority is authorized to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States government. In accordance with Section 6-10-16 and 6-10-17, NMSA 1978 Compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year.

Custodial credit risk is the risk that the deposits are not returned in the event of bank failure. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized by securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency, but not in the Authority's name.

At June 30, 2009, the carrying amount of the Authority's cash deposits was \$3,077,782. The bank balance was \$3,077,782. Of the bank balance, 100% was covered by depository insurance under the FDIC temporary Transaction Account Guarantee Program. This program, implemented October 14, 2008, provides depositors with unlimited coverage for non-interest bearing transaction accounts of participating banks. Prior to the program's implementation, the Authority's deposits were collateralized with securities held by the pledging financial institution's trust department.

4. Bond Issuance Costs

Bond issuance costs in the amount of \$18,148 represent amounts capitalized related to the issuance of debt. No amortization was recognized in the current year as the closing date was a few days before year end.

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Notes to Financial Statements (continued)  
 June 30, 2009

5. Short-Term Note Payable

The Authority borrowed \$100,000 from The Town of Bernalillo during the fiscal year ended June 30, 2009. The loan is for general start-up and operations costs.

The following changes occurred in short-term notes payable during the fiscal year ended June 30, 2009:

|                         | June 30,<br>2008 | Additions | Reductions | June 30,<br>2009 |
|-------------------------|------------------|-----------|------------|------------------|
| Town of Bernalillo loan | \$ -             | 100,000   | -          | 100,000          |

6. Restricted Net Assets/Fund Balances

The government-wide statement of net assets reports the following balances in the respective classifications of net assets:

Restricted for Capital Projects – represents net assets which are restricted to use for capital projects, which amounted to \$2,992,455 at year end.

Restricted for Debt Service – represents net assets which are restricted to use for debt service, which amounted to \$(2,999,900) at year end.

Unrestricted – represents net assets which have no legal or other restrictions, which amounted to \$(36,561) at year end.

Specific reservations of fund balance accounts are summarized below:

Reserved for Debt Service – represents funds which are restricted to use for debt service, which amounted to \$100 at year end.

Reserved for Construction Projects – represents funds which are restricted to use for construction projects and related costs, which amounted to \$2,974,307 at year end.

Unreserved – designated for subsequent year expenditures – represents unreserved and unexpended funds which amounted to \$(36,561) at year end.

7. Long-Term Liabilities

The following changes occurred in long-term liabilities during the fiscal year ended June 30, 2009:

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Notes to Financial Statements (continued)  
 June 30, 2009

7. Long-Term Liabilities (continued)

|                                   | June 30,<br>2008 | Additions | Reductions | June 30,<br>2009 |
|-----------------------------------|------------------|-----------|------------|------------------|
| General Obligation Bonds Payable: |                  |           |            |                  |
| Portion due within one year       | \$ -             | -         | -          | -                |
| Portion due after one year        | -                | 3,000,000 | -          | 3,000,000        |
|                                   | \$ -             | 3,000,000 | -          | 3,000,000        |

General obligation bonds are paid by the debt service fund.

The Authority has the following general obligation bonds payable as of June 30, 2009:

Series 2009

\$3,000,000, issued June 2009, with variable interest from 3.04% to 5.38% paid semi-annually in February and August, principal payments are due annually commencing August 1, 2010, maturing August 1, 2019.

\$ 3,000,000

The Authority has pledged ad valorem assessment revenues for repayment of the above bonds.

Debt service requirements to maturity are as follows:

| Due in Year Ending June 30, | Principal    | Interest |
|-----------------------------|--------------|----------|
| 2010                        | \$ -         | 73,066   |
| 2011                        | 635,000      | 111,564  |
| 2012-2016                   | 1,625,000    | 305,742  |
| 2017-2020                   | 740,000      | 79,492   |
|                             | \$ 3,000,000 | 569,864  |

The Authority anticipates issuing an additional \$3.0 million of new bonds in fiscal year 2012 for a total issuance of \$6.0 million. The new bond issuance will be addressed by the Board in fiscal year 2011.

8. Interfund Transfers

During the year, a transfer in the amount of \$100 was made from the general fund to the debt service fund for the purpose of paying account service fees until such time that ad valorem revenue deposits became available to pay such costs.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2009

9. New Accounting Pronouncement

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The provisions are effective for the Authority for periods beginning after June 15, 2010. Management does not expect implementation of this Statement to have a material effect on the financial statements.

10. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority did not have an insurance policy in place during the year to address these types of risks as it had no employees or capital assets. Management will evaluate the need for a commercial insurance policy on an ongoing basis.

11. Related Party Transactions

During the year ended June 30, 2009, the Authority expensed \$3,134 and accrued \$1,900 to members of the Board of Directors related to per diem.

12. Subsequent Events

The Authority has evaluated subsequent events through November 30, 2010, the date which the financial statements were available to be issued.

13. Commitments

At June 30, 2009 contracts were in progress on the Authority's infrastructure projects. These contracts were related to planning and design; no construction contracts were executed as of November 30, 2010.

**SUPPLEMENTAL INFORMATION**

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Schedule of Cash Account and Pledged Collateral  
June 30, 2009

CASH:

First Community Bank NM, NA

|                              |                       |
|------------------------------|-----------------------|
| Balance per bank             | \$ 3,077,782          |
| Less: FDIC coverage          | <u>(3,077,782)</u>    |
| Total uninsured public funds | \$ <u>          -</u> |

Reconciliation to financial statements:

|  |                     |
|--|---------------------|
| Checking account balance                         | \$ <u>3,077,782</u> |
| Reconciled cash balance per financial statements | \$ <u>3,077,782</u> |



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*

To the Board of Directors of the  
State of New Mexico, Eastern Sandoval County  
Arroyo Flood Control Authority  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the budgetary comparisons for the general fund, capital projects fund, and debt service fund of the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority (ESCAFCA or Authority), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 30, 2010, 2010. 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 Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2009-1, to be a significant deficiency in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

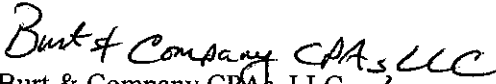
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as findings 2009-2 and 2009-3.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the Authority, the State Auditor, the New Mexico Department of Finance and Administration, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

  
Burt & Company CPAs, LLC

November 30, 2010

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Schedule of Findings and Responses  
June 30, 2009

I. Current-Year Findings Pertaining to the Financial Statements

A. Finding #2009-1 Year-End Closing Procedures

Condition:

- A bank reconciliation was not performed at June 30, 2009 for the general fund.
- Cutoff procedures did not identify that certain expenditures were recorded in the wrong period.

Criteria: Per NMAC Section 2.20.5.8.C cash account records are to be reconciled in a timely manner each month, and financial closing procedures should be adequate to enable proper cutoff.

Cause: Review of closing procedures did not identify discrepancies.

Effect: The financial statements at the fund level reflected activity in the General Fund that should have been reported in the Capital Projects Fund, and expenses were recorded in the wrong period in the amount of \$9,581.

Recommendation: We recommend that bank reconciliations be performed for all cash accounts on a monthly basis to ensure, at a minimum, proper recording of transactions at the fund level, as well as proper cut off of all financial transactions.

Agency Response: We are in agreement with this finding. June 2009 was the first month that checks were written for expenses by ESCAFCA, and the official books had not been setup by the Accountant. In addition, only 8 checks were written. However, in July 2009, the official accountant records and files were setup, enabling the Accountant to officially reconcile the bank accounts. Bank reconciliations from July 2009 have been prepared in an expeditious manner; all bank reconciliations will continue to be prepared as soon as the bank statements are received by the Accountant.

II. Current Year Findings In Accordance with N.M.A.C 2.2.2

A. Finding #2009-2 Timeliness of Audit Report

Condition: The June 30, 2009, fiscal year report audit for Eastern Sandoval County Arroyo Flood Control Authority was not submitted to the State Auditor's Office by the required due date of December 1, 2009. The audit report was submitted December 1, 2010.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Schedule of Findings and Responses (continued)  
June 30, 2009

Criteria: Subsection A of 2.2.2.9 (2.2.2 NMAC), Requirements for Contracting and Conducting audits of Agencies, and the audit contract requires that audit reports for special districts are due no later than 60 days after the Financial Control Division of the Department of Finance and Administration provides the State Auditor with notice that the district's books and records are ready and available for audit; however, the deadline cannot extend beyond December 1.

Cause: The Authority was not aware that they were required to submit audited financials.

Effect: Since the audit report was not delivered to State Auditor's Office by December 1, 2009, the Authority was out of compliance with State Audit Rule 2.2.2.9A and the provisions of the audit contract.

Recommendation: We recommend that future audit reports be delivered to the State Auditor's Office by the contracted delivery date and in compliance with State Auditor's Rule 2.2.2.9A and the provision of the audit contract.

Agency Response: We are in agreement with this finding. Future audits will be in accordance with all rules and regulations of the Office of the State Auditor.

B. Finding #2009-3 – Improper administration of Procurement Code

Condition: Sole source contracts were entered into without meeting the proper criteria allowing such contracts.

Criteria: Per NMAC 1.4.1.54, sole source contracts can only be executed when there is only one source of the required goods or services.

Cause: Management was unfamiliar with the specifics referenced in the aforementioned administrative code with respect to the procurement of certain contracts.

Effect: The Authority is out of compliance with respect to NMAC 1.4.1.54.

Recommendation: We recommend the Authority management review all applicable statutes going forward to ensure compliance.

Agency Response: A memo is on file documenting the process used to acquire accountant services. An accountant was needed who was highly qualified, intimately familiar with governmental and audit procedures, and immediately available. The process started as a Small Purchase of Professional Services [NMAC 1.4.1.52], with four candidates identified. This was quickly reduced to two as meeting Authority needs. Due to the press of time, a sole source contract was executed. Going forward, all contracts will be reviewed by legal counsel for proper compliance.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Financial Statement Preparation and Exit Conference  
June 30, 2009

Financial Statement Preparation

The financial statements were substantially prepared by the auditor with the assistance of the Authority. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.

Exit Conference

An exit conference was held on November 30, 2010, to discuss the audit. The following individuals were in attendance:

State of New Mexico – Eastern Sandoval County Arroyo Flood Control Authority

Jack Torres, Treasurer  
Debbie Kilfoy, Secretary  
Larry Blair, Executive Engineer  
Gary Young, Accountant

Independent Auditor – Burt & Company CPAs, LLC

Ronald E. Schranz, CPA  
Robert M. Santiago, CPA