

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

Annual Financial Report  
For the Year Ended June 30, 2010  
(With Independent Auditors' Report Thereon)

## INTRODUCTORY SECTION

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 June 30, 2010

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STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Official Roster  
as of June 30, 2010

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Salvador Reyes	Chairman
Debbie Kilfoy	Secretary
Wayne Sandoval	Director
Dan Dennison	Director
Jack Torres	Treasurer

ADMINISTRATIVE OFFICIALS

Larry Blair	Executive Engineer
Gary Young	Accountant

**FINANCIAL SECTION**

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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, and the budgetary comparisons for the general fund, the capital projects fund and debt service funds, 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, 2010, 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, 2010, 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 with 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, 2010, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

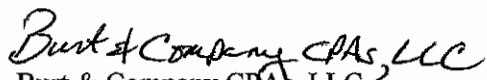
In our opinion, the financial statements referred to above present fairly, in all material respects, the

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, 2010, 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 7 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, and budgetary comparisons. The additional schedule listed as "Other 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, 2010

**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.

In Fiscal Year (FY) 2010, the ESCAFCA Board focused on three essential elements of its mission. First, the Board identified a "short list" of projects on which it wanted to move ahead, based on need and cost. In July 2008[FY 2009], the Board had reviewed a list of potential projects totaling \$133 million. Recognizing that it would take decades to accomplish such a list with projected financing, in FY 2010 the Board reduced the project list to about \$30 million of most-needed projects which could be done in 15-20 years. Although the Authority is primarily focused on arroyo flooding, it is also exploring the possibility of being a co-sponsor for a Federal [Army Corps of Engineers] levee rebuild project along the Rio Grande. Second, the Board initiated floodplain studies to correct erroneous FEMA floodplain maps published in 2008, and which had resulted in hundreds of homes having to pay flood insurance premiums. Also initiated was a comprehensive analysis of a major waterway to predict its behavior, and to determine appropriate restrictions and control measures. Third, the drafting of drainage regulations was started, in coordination with several other jurisdictions, to lay the foundation for more thorough building and development guidelines.



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 Management's Discussion and Analysis (continued)  
 June 30, 2010

In August, 2009, the assessed valuation for ESCAFCA was provided and the Board set its mill levy for Debt Service at 2.448 mills, and for Operations at .66 mills, respectively. In December 2009, a grant was applied for from the USDOT Pipeline and Hazardous Material Safety Administration. A \$50,000 grant was subsequently awarded in October 2010. Other significant activities in FY 2010 included preparations for the election of two board members [in November 2010]; and the addition of General Counsel and Real Estate professionals.

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Financial information in condensed format comparing fiscal year ending June 30, 2009 (FY 09) with fiscal year ending June 30, 2010 (FY 10) appears in the tables below:

<u>Statement of Net Assets</u>	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Cash	\$ 3,595,173	3,077,782
Ad valorem assessments	134,120	-
Bond issue cost, net	39,812	18,148
Construction in process	93,340	-
Total assets	<u>\$ 3,862,445</u>	<u>3,095,930</u>
<b>Liabilities:</b>		
Accounts payable	\$ 30,519	37,036
Related party payable	-	1,900
Accrued interest payable	40,404	1,000
Short-term note payable	-	100,000
Bonds payable		
Portion due after one year	2,365,000	3,000,000
Portion due within one year	635,000	-
Total liabilities	<u>3,070,923</u>	<u>3,139,936</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt		
Restricted:		
For capital projects	2,760,377	2,992,455
For debt service	(2,192,982)	(2,999,900)
Unrestricted	224,127	(36,561)
Total net assets	<u>\$ 791,522</u>	<u>(44,006)</u>

STATE OF NEW MEXICO  
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 Management's Discussion and Analysis (continued)  
 June 30, 2010

<u>Statement of Activities</u>	<u>2010</u>	<u>2009</u>
Program expenses		
Public works:		
General government	\$ 13,795	44,445
Planning and engineering	234,926	-
Contractual operating and maintenance costs	104,332	-
Bond issuance costs	4,208	-
Election expenses	7,520	-
Interest	<u>115,220</u>	<u>-</u>
Total program expenses	<u>480,001</u>	<u>44,445</u>
 General revenues		
Ad valorem assessments	1,307,737	-
Interest income	<u>7,792</u>	<u>439</u>
Total general revenues	1,315,529	439
 Increase (decrease) in net assets	<u>835,528</u>	<u>(44,006)</u>
Net assets, beginning of year	<u>(44,006)</u>	<u>-</u>
Net assets, end of year	\$ <u>791,522</u>	<u>(44,006)</u>

FY10 was the second year of operation for ESCAFCA. During this year, proceeds from the bond issue were used for various project evaluations and determinations, and other studies for drainage, etc. as stated above. In addition, the first property taxes were collected by the Sandoval County Treasurer, and distributed to the authority. These taxes are distributed to the authority as they are collected; hence no taxes are distributed before they are received. In addition to the distribution, a 1% valuation fee is attached to the distribution; a fee charged by Sandoval County to the authority for collection and payment costs. Taxes are distributed to the Operating fund for the operating budget, while the other portion is distributed to the Debt Service Fund for bond interest and principal payments. These amounts are calculated to cover the budgets for both funds during the year, while not charging an exorbitant amount to the taxpayers that would remain in the fund to be carried over to the next year. The Board exercised extreme caution of the use of funds, and were within budget in both the Operating and the Debt Service Funds for the year. The Projects Fund costs will either be expensed or capitalized as work-in-progress until the work is completed. For FY10, \$93,340 of costs in the Project Fund was work-in-progress.

Expenditures for the Operating fund were comprised mainly of professional contractors: the Interim Executive Engineer that was hired to help ESCAFCA get started; an accountant to prepare official accounting records and financial statements, bank reconciliations, etc; a public relations firm to

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Management's Discussion and Analysis (continued)  
June 30, 2010

establish the web site; and an attorney for legal and other issues. Other small expenditures included legal ads for advertising, and small item office supplies. Currently, the main mailing address for ESCAFCA is that of the Executive Engineer, as ESCAFCA has not yet rented/leased an office space. The Board meets in the Town of Bernalillo Council Chambers or other public venues as necessary. No permanent employees were hired by the authority in FY10, resulting in \$-0- dollars for salary(s), PERA, and other personnel related costs. It is anticipated that an office space will be leased/rented in FY11 to officially receive mail, and to house permanent records as required by law. There were no capital assets acquired by ESCAFCA in FY10. Most expenditures were repetitive in nature for the contractors.

**FUND LEVEL ACTIVITY**

Revenues for the Operating Fund consisted of property tax deposits, and small interest generated by the cash deposits into the bank account.

Expenditures for the Projects fund included bond issue costs, and cost for Wilson and Co., who is currently working on various studies for the authority to determine project priorities. Revenues consisted of bond proceeds, and interest revenue generated by the cash in bank.

Revenues in the Debt Service fund were realized from the tax deposits, generated by the Property Taxes assessed against the property owners. An amount was determined in order to meet the first interest payment of \$73,066; and for the first principal and interest payment due August 1, 2010: \$635,000 principal, \$60,607 interest, for a total of \$768,673. Tax revenues were sufficient to cover these requirements, and to have an adequate safety margin for the following year.

All three funds were not impacted significantly by current economic conditions. However, due to an increase in property foreclosures, tax revenues in future years may be adversely affected. The Board has recognized this condition, and has taken steps to ensure ESCAFCA is very conservative in its' forthcoming expenditures for FY11.

ESCAFCA has all monies deposited into the First Community Bank in Bernalillo, New Mexico. First Community Bank has had negative publicity as to their financial standing in the community due to falling stock prices, etc. As such, a meeting was held with the officers of the bank, the Interim Executive Engineer, and the Board to determine the safety of the cash assets. The meeting resulted in the Banks' assuring the Board the monies are safe, and no further movement to another fiscal agent has been justified at this time. All rules for collateralization have been followed by the bank. Management will continue to monitor the condition of the bank.

**BUDGETARY PERFORMANCE**

The financial position of ESCAFCA has greatly improved during the past year, due to the collection of first year property taxes, and is in line with the projections as outlined by the Board and the Interim Executive Engineer who developed the FY10 budget. Tax revenues were adequate to meet the

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June 30, 2010

budgeted costs of both the Operating and the Debt Service Funds, even though tax revenues in both funds were under-collected. Bond proceeds were deposited into the Projects Fund to cover expenditures associated with various studies and analysis provided by the contractor. The Authority was in compliance with required budget reporting for fiscal year 2010.

**PLANS FOR FUTURE ACTIVITIES**

Immediate and long term plans include the completion of on-going floodplain studies and FEMA map revisions; the acquisition of right-of-way (ROW) for a major project in Bernalillo; administration of a USDOT grant of \$50,000 to look at a pipeline safety concern in Las Huertas Creek in Placitas; a co-operative flood control/multi-purpose project with the Town of Bernalillo; a possible co-operative Rio Grande levee project with the Army Corps of Engineers and other local sponsors; and co-operative road/drainage projects with Sandoval County. Administratively, the Authority will draft policies on investments, procurement, records, and insurance; and pursue conversion of at-large Board positions to districted positions.

ESCAFA plans to continue to move forward with the projects that commenced in fiscal year 2010, and anticipates that an increased level of spending in fiscal year 2011 as a result. Subsequent to the year ending June 30, 2010, management entered into a lease agreement for space from which to conduct day to day operations. Management and the Board will review operations during fiscal year 2011 to determine when the next bond sale will take place as the progress of projects continues to be monitored.

## BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Statement of Net Assets  
 June 30, 2010

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash	\$ 3,595,173
Receivable: Ad valorem assessments	134,120
Bond issue costs, net of accumulated amortization	39,812
Construction in progress	<u>93,340</u>
Total assets	<u>\$ 3,862,445</u>
<b>Liabilities:</b>	
Accounts payable	\$ 30,519
Accrued interest payable	40,404
General obligation bonds payable:	
Portion due within one year	635,000
Portion due after one year	<u>2,365,000</u>
Total liabilities	<u>3,070,923</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	-
Restricted:	
For capital projects	2,760,377
For debt service	(2,192,982)
Unrestricted	<u>224,127</u>
Total net assets	<u>\$ 791,522</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, 2010

	<u>Governmental Activities</u>
Program expenses:	
Public Works:	
Planning and engineering	\$ 234,926
General and administrative expenses	13,795
Contractual operating and maintenance services	104,332
Bond issuance costs	4,208
Election expenses	7,520
Interest	<u>115,220</u>
Total program expenses	<u>480,001</u>
General revenues:	
Ad valorem assessments	1,307,737
Interest income	<u>7,792</u>
Total general revenues	<u>1,315,529</u>
Increase in net assets	835,528
Net assets, beginning of year	<u>(44,006)</u>
Net assets, end of year	\$ <u>791,522</u>

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

STATE OF NEW MEXICO  
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 Balance Sheet  
 Governmental Funds  
 June 30, 2010

	Major Funds			Total Govern- mental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
<b>Assets:</b>				
Cash	\$ 195,199	2,647,919	752,055	3,595,173
<b>Receivables:</b>				
Ad valorem assessments	<u>38,753</u>	-	<u>95,367</u>	<u>134,120</u>
Total assets	<u>\$ 233,952</u>	<u>2,647,919</u>	<u>847,422</u>	<u>3,729,293</u>
<b>Liabilities and fund balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 9,825	20,694		30,519
Deferred revenue	<u>34,546</u>	-	<u>85,190</u>	<u>119,736</u>
Total liabilities	44,371	20,694	85,190	150,255
<b>Fund balances:</b>				
Reserved for debt service	-	-	762,232	762,232
Reserved for capital projects	-	2,627,225	-	2,627,225
<b>Unreserved:</b>				
Designated for subsequent year expenditures	<u>189,581</u>	-	-	<u>189,581</u>
Total fund balances	<u>189,581</u>	<u>2,627,225</u>	<u>762,232</u>	<u>3,579,038</u>
Total liabilities and fund balances	<u>\$ 233,952</u>	<u>2,647,919</u>	<u>847,422</u>	<u>3,729,293</u>

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



STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
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 Reconciliation of the Governmental Funds Balance Sheet to the  
 Government-Wide Statement of Net Assets  
 June 30, 2010

Total fund balances - governmental funds (Balance Sheet) \$ 3,579,038

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

Capital assets used in governmental activities are not financial resources therefore are not reported in the funds 93,340

Delinquent ad valorem assessments receivable are not available to pay current period expenditures and, therefore, are reported as deferred revenues in the fund financial statements. 119,736

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	<u>(40,404)</u>	
Total liabilities		(3,040,404)

Bond issue costs are expensed in the period expended for fund financial statements but are capitalized for governmental activities 39,812

Total net assets (Statement of Net Assets) \$ 791,522

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

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 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Governmental Funds  
 For the Year Ended June 30, 2010

	Major Funds			Total Govern- mental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
<b>Revenues:</b>				
Ad valorem assessments	\$ 344,548	-	843,453	1,188,001
Interest income	179	7,055	558	7,792
<b>Total revenues</b>	<b>344,727</b>	<b>7,055</b>	<b>844,011</b>	<b>1,195,793</b>
<b>Expenditures</b>				
<b>Current:</b>				
General government	116,535	328,265	9,113	453,913
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	1,750	-	73,066	74,816
Bond issuance costs	-	25,872	-	25,872
<b>Total expenditures</b>	<b>118,285</b>	<b>354,137</b>	<b>82,179</b>	<b>554,601</b>
Excess (deficiency) of revenues over expenditures	226,442	(347,082)	761,832	641,192
<b>Other financing sources (uses)</b>				
Transfers from (to) other funds	(300)	-	300	-
<b>Total other financing sources</b>	<b>(300)</b>	<b>-</b>	<b>300</b>	<b>-</b>
<b>Net changes in fund balances</b>	226,142	(347,082)	762,132	641,192
<b>Fund balances, beginning of year</b>	<b>(36,561)</b>	<b>2,974,307</b>	<b>100</b>	<b>2,937,846</b>
<b>Fund balances, end of year</b>	<b>\$ 189,581</b>	<b>2,627,225</b>	<b>762,232</b>	<b>3,579,038</b>

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

STATE OF NEW MEXICO  
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 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, 2010

Net change in fund balances - governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 641,192
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures, while in the statement of activities these costs are capitalized.	93,340
Governmental funds to not report the net change in accrued interest payable	(40,404)
Delinquent property taxes receivable are not available financial resources and therefore are reported as deferred revenue in the fund financial statements	119,736
Current year bond issue costs are reported as an expense in the fund financial statements but is capitalized in the statement of activities	25,872
Bond issuance costs are not amortized for fund financial statements purposes but are for governmental activities - current year amortization	<u>(4,208)</u>
Increase in net assets of governmental activities (Statement of Activities)	<u>\$ 835,528</u>

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

STATE OF NEW MEXICO  
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 Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)  
 Budget and Actual – General Fund  
 For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Budget Basis</u>	Favorable (Unfavorable)
<b>Revenues:</b>				
Ad valorem assessments	\$ 370,000	370,000	344,548	(25,452)
Interest income	<u>179</u>	<u>-</u>	<u>179</u>	<u>179</u>
Total revenues	<u>370,179</u>	<u>370,000</u>	<u>344,727</u>	<u>(25,273)</u>
Prior-year cash	<u>77,546</u>	<u>77,546</u>		
Total revenues budgeted	<u>\$ 447,725</u>	<u>447,546</u>		
<b>Expenditures:</b>				
General government	\$ 403,500	403,500	116,535	286,965
Interest	-	-	1,750	(1,750)
Transfer out	<u>-</u>	<u>-</u>	<u>300</u>	<u>(300)</u>
Total expenditures	<u>\$ 403,500</u>	<u>403,500</u>	<u>118,585</u>	<u>284,915</u>
Prior year fund balance - budget basis	<u>\$ (36,561)</u>			
<b>Reconciliation of GAAP basis to budgetary basis revenue:</b>				
GAAP basis revenue			\$ 379,273	
Adjustments: Delinquent ad valorem assessments			<u>(34,546)</u>	
Budget basis revenue			<u>\$ 344,727</u>	
<b>Reconciliation of GAAP basis to budgetary basis expenditures:</b>				
GAAP basis expenditures			\$ 118,585	
Adjustments: None			<u>-</u>	
Budget basis expenditures			<u>\$ 118,585</u>	

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

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 Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)  
 Budget and Actual – Capital Projects Fund  
 For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Ad valorem assessments	\$ -	-	-	-
Interest income	-	-	7,055	7,055
Total revenues	-	-	<u>7,055</u>	<u>7,055</u>
Total revenues budgeted	\$ -	-		
<b>Expenditures</b>				
General government	2,250,000	2,250,000	328,265	1,921,735
Bond issuance costs	-	-	25,872	(25,872)
Total expenditures	\$ <u>2,250,000</u>	<u>2,250,000</u>	<u>354,137</u>	<u>1,895,863</u>
Prior year fund balance - budget basis	\$ <u>2,974,304</u>			
<b>Reconciliation of GAAP basis to budget basis revenue:</b>				
GAAP basis revenue			\$ 7,055	
Adjustments: None			<u>-</u>	
Budget basis revenue			\$ <u>7,055</u>	
<b>Reconciliation of GAAP basis to budget basis expenditures:</b>				
GAAP basis expenditures			\$ 220,985	
Adjustments: Capitalized project costs			93,340	
Bond issue costs, net			<u>39,812</u>	
Budget basis expenditures			\$ <u>354,137</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 – Debt Service Fund  
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Ad valorem assessments	\$ -	900,000	843,453	(56,547)
Interest income	-	-	558	558
Transfer in	-	-	300	300
Total revenues	\$ -	<u>900,000</u>	<u>844,311</u>	<u>(55,689)</u>
<b>Expenditures</b>				
General government	-	-	9,113	(9,113)
Debt service:				
Interest	<u>83,000</u>	<u>83,000</u>	<u>73,066</u>	<u>9,934</u>
Total expenditures	83,000	83,000	82,179	821
Prior year fund balance - budget basis	\$	<u>100</u>		
<b>Reconciliation of GAAP basis to budget basis revenue:</b>				
GAAP basis revenue			\$ 929,501	
Adjustments:				
Delinquent ad valorem assessments			<u>85,190</u>	
Budget basis revenue			\$ <u>844,311</u>	
<b>Reconciliation of GAAP basis to budget basis expenditures:</b>				
GAAP basis expenditures			\$ 122,583	
Adjustments:				
Accrued interest expense			<u>(40,404)</u>	
Budget basis expenditures			\$ <u>82,179</u>	

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, 2010

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 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 with 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 State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 any 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 three parts: invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. 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.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2010

2. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements - Government-Wide Statements

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, 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, three of its funds, the general fund, the capital project fund, as major funds. There are 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, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.



STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2010

2. Summary of Significant Accounting Policies (continued)

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

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 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.

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

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2010

2. Summary of Significant Accounting Policies (continued)

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 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.

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.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2010

2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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 investment in capital assets, restricted and unrestricted.

Investment in Capital Assets - Is intended to reflect the portion of net assets, which are associated with non-liquid, capital assets.

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 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.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2010

3. Cash and Collateral

Cash at June 30, 2010 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, 2010, the carrying amount of the Authority's cash deposits was \$3,595,173. The bank balance was \$3,596,028. 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 of \$39,812 represent amounts capitalized related to the issuance of debt. Amortization in the amount of \$4,208 was recognized in the current year.

5. Construction in Progress

Construction in Progress represents capitalized project costs in the amount of \$93,340 for infrastructure projects that were not placed in service at June 30, 2010.

6. 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 the short-term notes payable during the fiscal year ended June 30, 2010:

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Notes to Financial Statements (continued)  
 June 30, 2010

6. Short-Term Note Payable (continued)

	June 30, 2009	Additions	Reductions	June 30, 2010
Town of Bernalillo loan	\$ 100,000	-	(100,000)	-

7. 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 \$2,760,377 at year end.

Restricted for Debt Service – represents net assets which are restricted to use for debt service, which amounted to \$(2,192,982) at year end.

Unrestricted – represents net assets which have no legal or other restrictions, which amounted to \$224,127 at year end.

Specific reservations of fund balance accounts are summarized below:

Reserved for Construction Projects – represents funds which are restricted to use for construction projects and related costs, which amounted to \$2,627,225 at year end.

Reserved for Debt Service – represents funds which are restricted to use for debt service, which amounted to \$762,232 at year end.

Unreserved – designated for subsequent year expenditures – represents unreserved and unexpended funds which amounted to \$189,581 at year end.

8. Ad Valorem Assessments

Ad valorem assessments are levied each calendar year in November, based on taxable property valuations within the Authority's boundaries as determined by the New Mexico Sandoval County Assessor. The ad valorem assessments are due in two equal installments November 10, and April 10, following the levy, payable to the Sandoval County Treasurer. The ad valorem assessments are collected by the county treasurer and remitted to the Authority on a monthly basis.

Under the modified accrual basis of accounting, all ad valorem assessments collected by the

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Notes to Financial Statements (continued)  
 June 30, 2010

8. Ad Valorem Assessments

County and remitted to the Authority within thirty days of year end are recorded as a receivable and revenue, with all ad valorem assessments not collected within thirty days following year end being reported as deferred revenue within the governmental funds. Under the full accrual basis of accounting, ad valorem assessments are recorded as a receivable and revenue when billed to taxpayers by the New Mexico Sandoval County Treasurer.

For the year ended June 30, 2010, the ad valorem assessments levied by the Authority were \$.66 and \$2.44 per \$1,000 of taxable value for operating purposes and debt service requirements, respectively. Section 7-37-7.1 NMSA 1978 limits the allowable increase in property taxes for operating purposes from the preceding year, but it does not limit any debt service levy. Lien rights are available to the Authority on all delinquent ad valorem assessments. Liens are placed on delinquent properties on July 15<sup>th</sup>, three years after the original assessment.

9. Deferred Revenue

Receivables which do not meet the "available" criteria for revenue recognition under the modified accrual basis of accounting are recorded as deferred revenue. Deferred revenue at June 30, 2010 is attributable to ad valorem assessments in the amount of \$119,736.

10. Long-Term Liabilities

The following changes occurred in long-term liabilities during the fiscal year ended June 30, 2010:

	June 30, 2009	Additions	Reductions	June 30, 2010
General Obligation Bonds				
Payable:				
Portion due within one year	\$ -	635,000	-	635,000
Portion due after one year	<u>3,000,000</u>	<u>-</u>	<u>635,000</u>	<u>2,365,000</u>
	<u>\$ 3,000,000</u>	<u>635,000</u>	<u>635,000</u>	<u>3,000,000</u>

General obligation bonds are paid by the debt service fund.

STATE OF NEW MEXICO  
 EASTERN SANDOVAL COUNTY  
 ARROYO FLOOD CONTROL AUTHORITY  
 Notes to Financial Statements (continued)  
 June 30, 2010

10. Long-Term Liabilities (continued)

The Authority has the following general obligation bonds payable as of June 30, 2010:

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
2011	\$ 635,000	111,564
2012	865,000	86,428
2013-2017	760,000	219,312
2018-2022	740,000	79,492
	\$ 3,000,000	496,796

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 FY 2011.

11. Interfund transfers

During the year, a transfer in the amount of \$300 was made from the general fund to the debt service fund for the purpose of paying the annual fee to Zion Bank.

12. 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.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Notes to Financial Statements (continued)  
June 30, 2010

13. 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.

14. Related Party Transactions

During the year ended June 30, 2010, the Authority paid members of the Board of Directors per diem totaling \$7,220.

15. Subsequent Events

Subsequent to year end, the Authority received a \$50,000 grant from the Pipeline and Hazardous Material Safety Administration. The grant will be used to conduct work in the planning and outreach phase of a stream study and related implications for pipelines in a High Consequence Area.

In October 2010, the Authority leased office space for daily operations. The Authority signed a \$480 a month lease agreement. The lease will expire in October 2011.

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

16. Commitments and Contingencies

At June 30, 2010, 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 December 1, 2010.



OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Schedule of Cash Account and Pledged Collateral  
June 30, 2010

CASH:

First Community Bank NM, NA

Balance per bank	\$ 3,596,028
Less: FDIC coverage	<u>(3,596,028)</u>
Total uninsured public funds	\$ <u>          -</u>

Reconciliation to financial statements:

Balance per bank	3,596,028
Less: outstanding checks	<u>(855)</u>
Reconciled cash balance per financial statements	\$ <u>3,595,173</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, and the budgetary comparisons for the general fund, capital project fund, and debt service fund, of the State of New Mexico, Eastern Sandoval County Arroyo Flood Control Authority (ESCAFCA or the Authority), as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying

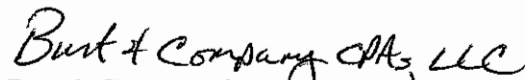
schedule of findings and responses as item 2010-1, to be a material weakness in internal control over financial reporting.

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as finding 2009-3.

The agency's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the agency'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 agency, 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, 2010

I. Prior-Year Audit Findings

- A. Finding #2009-1 Bank Reconciliations – Resolved
- B. Finding #2009-2 Timeliness of Audit Report - Resolved

II. Current-Year Findings Pertaining to the Financial Statements

A. Finding #2010-1 – Revenue Recognition

Condition: Bond revenue relating to fiscal year 2009 was recorded as revenue during fiscal year 2010.

Criteria: Bond proceeds should be recognized as other financing sources in the period that the revenue has been received.

Cause: Delays in the implementation of software package resulted in some 2009 transactions to be recorded in the wrong period.

Effect: Revenue was materially overstated.

Recommendation: Management should review financials to ensure transactions are recorded in the proper accounting periods.

Agency Response: The accountant did not start the official books for ESCAFCA until July 1, 2009; the software did not reflect a prior fiscal year to FY10. Hence, the bond issue was recorded as of July 1, 2009 as part of the FY10 transactions. In this isolated case, revenues were simply captured when the software was implemented, again, which was July 2009. As of the date of this report, management has taken steps to remedy this by discussing with the auditors and posting the entries to correct the error.

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

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

Condition: A sole source contract was entered into without meeting the proper criteria.

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.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
Schedule of Findings and Responses (continued)  
June 30, 2010

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 State 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. Only one was interested, and due to the press of time, a sole source contract was negotiated. As contracts expire or are renewed, they are reviewed by management and legal counsel to ensure appropriate procedures are followed.

STATE OF NEW MEXICO  
EASTERN SANDOVAL COUNTY  
ARROYO FLOOD CONTROL AUTHORITY  
June 30, 2010

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, Director  
Larry Blair, Executive Engineer  
Gary Young, Accountant

Independent Auditor – Burt & Company CPAs, LLC

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