

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

Annual Financial Report
For the Year Ended June 30, 2011
(With Independent Auditors' Report Thereon)

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 June 30, 2011

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STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Official Roster
as of June 30, 2011

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Salvador Reyes	Chairman
Wayne Sandoval	Director
Jack Torres	Treasurer

ADMINISTRATIVE OFFICIALS

Michael Castillo	Executive Engineer
Modesto Tapia	Accountant

FINANCIAL SECTION



Burt & Company CPAs, LLC

Accounting, Tax, & Financial Advisors

Ronald E. Schranz, CPA, CVA
Robert D. Austin, CPA, CVA

Dennis R. Burt, CPA, CVA
Elizabeth A. Farr, CPA
Matthew Pacheco, CPA
Robert M. Santiago, CPA
Sherry Lynn Schulz, CPA, CFFA
Cheryl D. Silcox, CPA
Panda Townsend, CPA
Carol M. Wilkens, CPA

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 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, 2011, which collectively comprise the 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, 2011, as listed in the table of contents. These financial statements are the responsibility of the 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.

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 Authority, as of June 30, 2011, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparisons for the general fund, major capital project fund and debt service fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011 on our consideration of the 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

December 22, 2011

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Management's Discussion and Analysis
June 30, 2011

CURRENT YEAR ACTIVITIES

In Fiscal Year (FY) 2011, the third year of operation, the Authority continued to focus on the essential elements of its mission. The focus included but was not limited to major waterway studies, administrative duties, flood mapping and major waterway studies and analysis. The Placitas Las Huertas Arroyo Prudent Line Analysis was one such major study.

The Placitas Las Huertas Arroyo Federal Emergency Management Agency (FEMA) floodplain maps published in 2008, listed hundreds of homes in the 100 year flood plain, causing excessive flood insurance premiums. These floodplain maps were modified based upon new technology and data, which resulted in a "Letter of Map Revision" (LOMR), submitted, subsequent to fiscal year end, to FEMA for review and approval. Final FEMA approval should result in significant reduction of the need for flood insurance. The Authority also conducted a Placitas Las Huertas Arroyo Prudent Line Study, which is a comprehensive analysis of a major waterway to predict its behavior to determine appropriate restrictions and control measures. The Placitas Las Huertas Arroyo FEMA LOMR and Prudent Line Study are the only Placitas projects scheduled for completion.

The Board has re-prioritized its efforts for projects located in the Town of Bernalillo and the Algodones area including but not limited to:

The Authority continued in its efforts to certify, modify or rebuild an existing levee, currently under the authority of the Middle Rio Grande Conservancy District. The levy is located along the east side of the Rio Grande in the Town of Bernalillo and the Algodones area. Meetings with the Army Corps of Engineers have not yet resulted in additional federal funding or co-sponsor to date, due to federal budgetary restrictions. However, the Authority will continue its efforts to enhance these facilities to conform to the Army Corps of Engineers standards and function as effective flood control structures.

The South Bernalillo Athena Avenue Pond and Collection System Feasibility Study and the Algodones Stormwater Detention and Conveyance Alternatives study were also completed. These feasibility drainage studies will provide a basis for future building and infrastructure development guidelines.

In August of, 2010, the assessed valuation for the Authority was provided and the Board set its mill levy for Debt Service at 2.444 mills, and for Operations at .66 mills, respectively. However, on April 6, 2011 the 2011 State Legislature approved House Bill 306, to exclude certain land (Placitas) from the Authorities ad valorem tax levy. This not only caused a necessary change in work focus, but also a major impact to the expected revenues and associated budget for future years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Management's Discussion and Analysis (continued)
June 30, 2011

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.

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.

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 Management's Discussion and Analysis (continued)
 June 30, 2011

FINANCIAL POSITION AND RESULTS OF OPERATIONS

Financial information in condensed format comparing fiscal year ending June 30, 2011 (FY 11) with the prior fiscal year ending June 30, 2010 (FY 10) appears in the tables below:

<u>Statement of Net Assets</u>	<u>2011</u>	<u>2010</u>
Assets:		
Cash	\$ 3,654,250	3,595,173
Ad valorem assessments receivable	218,517	134,120
Grants receivable	14,024	
Bond issue cost, net	35,410	39,812
Construction in process	118,900	93,340
Total assets	<u>\$ 4,041,101</u>	<u>3,862,445</u>
Liabilities:		
Accounts payable	\$ 129,418	30,519
Accrued interest payable	33,972	40,404
Bonds payable		
Portion due within one year	865,000	2,365,000
Portion due after one year	1,500,000	635,000
Total liabilities	<u>2,528,390</u>	<u>3,070,923</u>
Invested in capital assets, net of related debt		
Restricted:		
For operating	203,159	224,127
For capital projects	2,565,577	2,760,377
For debt service	<u>(1,256,025)</u>	<u>(2,192,982)</u>
Total net assets	<u>\$ 1,512,711</u>	<u>791,522</u>

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Management's Discussion and Analysis (continued)
June 30, 2011

FINANCIAL POSITION AND RESULTS OF OPERATIONS – Continued

<u>Statement of Activities</u>	<u>2011</u>	<u>2010</u>
Program expenses		
Public works:		
General government	\$ 27,124	13,795
Planning and engineering	207,499	234,926
Contractual operating and maintenance costs	279,527	104,332
Bond amortization	4,402	4,208
Election expenses	10,373	7,520
Interest	<u>105,131</u>	<u>115,220</u>
Total program expenses	<u>634,056</u>	<u>480,001</u>
 General revenues		
Ad valorem assessments	1,335,751	1,307,737
Grants	14,024	-
Interest income	<u>5,470</u>	<u>7,792</u>
Total general revenues	<u>1,355,245</u>	<u>1,315,529</u>
 Increase (decrease) in net assets	<u>721,189</u>	<u>835,528</u>
Net assets, beginning of year	<u>791,522</u>	<u>(44,006)</u>
Net assets, end of year	\$ <u>1,512,711</u>	<u>791,522</u>

During the 2011 fiscal year, proceeds from the bond issue were used for various project evaluations and determinations, and other studies for drainage, etc. as stated above. Property taxes were collected by the Sandoval County Treasurer, and distributed to the Authority. The Sandoval County Treasurer assesses a 1% distribution fee 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. Revenues in excess of expenditures remain in the fund to be carried over to the next year. The Capital Projects Fund expenditures will either be expensed or capitalized as work-in-progress until the work is completed.

Expenditures for the Operating fund were comprised mainly of office expenses, governmental affairs and professional contractors. The Authority has established a physical presence, located in a small office in the Town of Bernalillo City Hall, to conduct official business and to house permanent records as required by law. Public office hours are posted and kept. All Authority business is conducted at this location. A new Consultant Executive Engineer and Accountant have been hired. In a continued effort to operate as cost effectively and efficiently as possible, the public relations function has been discontinued and no permanent employees have been hired to avoid payroll and payroll related costs.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Management's Discussion and Analysis (continued)
June 30, 2011

The Board meets monthly in the Town of Bernalillo Council Chambers, or other public venues as necessary. There were no capital assets acquired and most expenditure was repetitive in nature.

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 contract engineering costs for various studies for the Authority to determine the flood potential and control measures. Revenues consisted of interest revenue generated by the cash in bank from the balance of the prior year bond proceeds.

Revenues in the Debt Service fund were realized from the tax deposits, generated by the Property Taxes assessed against the land owners. The annual interest payments were made in August of 2010, in the amount of \$60,563 and February of 2011, in the amount of \$51,000. The annual principal payment was made in August of 2010; in the amount of \$635,000. Tax Distribution fees amounted to \$9,662 and the Fiscal Agent Fee amounted to \$300 for the year. The year end Fund Balance was sufficient to cover the FY12 interest payment in the amount of \$50,945 and principal payment in the amount of \$865,000 made in August of 2011.

The Authority deposits all monies deposited into the U.S. Bank formerly First Community Bank in Bernalillo, New Mexico. Collateralization requirements have been followed by U.S. Bank.

BUDGETARY PERFORMANCE

On June 21, 2011 the Operations Budget of the Authority was revised by increasing the Revenues by \$15,800 bringing total Revenues to \$266,500; and by increasing Expenditures by \$49,300 bringing total Expenditures to \$300,000. These changes resulted in an adjusted budgeted fund balance in the amount of \$33,500.

A Budget Adjustment Request was submitted and approved by the Local Government Division of the New Mexico Department of Finance and Administration as required by law for fiscal year 2011.

PLANS FOR FUTURE ACTIVITIES

Project priorities have been modified as result of the New Mexico's Legislative action in HB 306. However, the Authority plans to complete the on-going Placitas Las Huertas Arroyo FEMA LOMR and Prudent Line Study; the acquisition of property and easements; administration of a USDOT \$50,000 Pipeline grant; several flood control projects; a possible "partnership" with local and Federal Authorities in an effort to find funding for improvement of the flood control levies which exist along the Rio Grande; and the feasibility of various storm water ponding and conveyance structures in Bernalillo and Algodones. It is anticipated that the pipeline safety project will be completed prior to December 2011.

The Authority executed a \$3,000,000 bond sale in early FY12 through the New Mexico Finance Authority. The bond sale proceeds will be held by Bank of New York Mellon and requisitioned by the Authority at any time after closing.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 Statement of Net Assets
 June 30, 2011

	<u>Governmental Activities</u>
Assets:	
Cash	\$ 3,654,250
Receivable: Ad valorem assessments	218,517
Grants receivable	14,024
Bond issue costs, net of accumulated amortization	35,410
Construction in progress	<u>118,900</u>
Total assets	<u>\$ 4,041,101</u>
Liabilities:	
Accounts payable	\$ 129,418
Accrued interest payable	33,972
General obligation bonds payable:	
Portion due within one year	865,000
Portion due after one year	<u>1,500,000</u>
Total liabilities	<u>2,528,390</u>
Net Assets:	
Invested in capital assets, net of related debt	-
Restricted:	
For capital projects	2,565,577
For debt service	(1,256,025)
For operations	<u>203,159</u>
Total net assets	<u>\$ 1,512,711</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, 2011

	<u>Governmental Activities</u>
Program expenses:	
Public Works:	
Planning and engineering	\$ 207,499
General and administrative expenses	27,124
Contractual operating and maintenance services	279,527
Bond amortization	4,402
Election expenses	10,373
Interest	<u>105,131</u>
Total program expenses	<u>634,056</u>
General revenues:	
Ad valorem assessments	1,335,751
Grants	14,024
Interest income	<u>5,470</u>
Total general revenues	<u>1,355,245</u>
Increase in net assets	721,189
Net assets, beginning of year	<u>791,522</u>
Net assets, end of year	\$ <u>1,512,711</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, 2011

	Major Funds			Total Govern- mental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Assets:				
Cash	\$ 194,431	2,483,265	976,554	3,654,250
Receivables:				
Ad valorem assessments	52,124	-	166,393	218,517
Grants	-	14,024	-	14,024
Total assets	\$ 246,555	2,497,289	1,142,947	3,886,791
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 43,397	86,022		129,419
Deferred revenue	48,416	-	153,082	201,498
Total liabilities	91,813	86,022	153,082	330,917
Fund balances:				
Restricted for debt service	-	-	989,865	989,865
Restricted for capital projects	-	2,411,267	-	2,411,267
Restricted for operations	154,742	-	-	154,742
Total fund balances	154,742	2,411,267	989,865	3,555,874
Total liabilities and fund balances	\$ 246,555	2,497,289	1,142,947	3,886,791

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, 2011

Total fund balances - governmental funds (Balance Sheet)	\$	3,555,874
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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		118,900
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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.		201,498
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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	(2,365,000)	
Accrued interest payable	<u>(33,972)</u>	
Total liabilities		(2,398,972)

Bond issue costs are expensed in the period expended for fund financial statements but are capitalized for governmental activities		35,410
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Rounding		<u>1</u>
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Total net assets (Statement of Net Assets)	\$	<u>1,512,711</u>
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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, 2011

	Major Funds			Total Govern- mental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Revenues:				
Ad valorem assessments	\$ 270,149	-	983,840	1,253,989
Grants	-	14,024	-	14,024
Interest income	1,305	3,799	366	5,470
Total revenues	<u>271,454</u>	<u>17,823</u>	<u>984,206</u>	<u>1,273,483</u>
Expenditures				
Current:				
General government	306,293	233,781	10,010	550,084
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	635,000	-
Interest	-	-	111,563	111,563
Bond issuance costs	-	-	-	-
Total expenditures	<u>306,293</u>	<u>233,781</u>	<u>756,573</u>	<u>1,296,647</u>
Excess (deficiency) of revenues over expenditures	(34,839)	(215,958)	227,633	(23,164)
Other financing sources (uses)				
Transfers from (to) other funds	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(34,839)	(215,958)	227,633	(23,164)
Fund balances, beginning of year	<u>189,581</u>	<u>2,627,225</u>	<u>762,232</u>	<u>3,579,038</u>
Fund balances, end of year	<u>\$ 154,742</u>	<u>2,411,267</u>	<u>989,865</u>	<u>3,555,874</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, 2011

Net change in fund balances - governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ (23,164)
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.	25,560
Governmental funds to not report the net change in accrued interest payable	6,433
Delinquent property taxes receivable are not available financial resources and therefore are reported as deferred revenue in the fund financial statements	81,762
Current year bond payments are reported as an expense in the fund financial statements but applied against debt in the statement of activities	635,000
Bond issuance costs are not amortized for fund financial statements purposes but are for governmental activities - current year amortization	<u>(4,402)</u>
Increase in net assets of governmental activities (Statement of Activities)	<u>\$ 721,189</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, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem assessments	\$ 250,700	266,500	252,571	(13,929)
Interest income	-	-	1,305	1,305
Total revenues	<u>250,700</u>	<u>266,500</u>	<u>253,876</u>	<u>(12,624)</u>
Prior-year cash	<u>195,199</u>	<u>195,199</u>		
Total revenues budgeted	<u>\$ 445,899</u>	<u>461,699</u>		
Expenditures:				
General government	\$ 250,700	300,000	285,891	14,109
Interest	-	-	-	-
Transfer out	-	-	-	-
Total expenditures	<u>\$ 250,700</u>	<u>300,000</u>	<u>285,891</u>	<u>14,109</u>
Reconciliation of GAAP basis to budgetary basis revenue:				
GAAP basis revenue			\$ 271,454	
Adjustments:				
Add: Prior year accounts receivable			34,546	
Less: Current year accounts receivable			<u>(52,124)</u>	
Budget basis revenue			<u>\$ 253,876</u>	
Reconciliation of GAAP basis to budgetary basis expenditures:				
GAAP basis expenditures			\$ 306,292	
Adjustments:				
Add: Prior year accounts payable			22,995	
Less: Current year accounts payable			<u>(43,396)</u>	
Budget basis expenditures			<u>\$ 285,891</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, 2011

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 the organization of 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 two parts: invested in capital assets, net of related debt, and restricted 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, 2011

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, the general fund, the capital project fund, and the debt service 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 in 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, 2011

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, 2011

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 full 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) and are prepared on a cash basis. 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 on a cash basis. 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, 2011

2. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary 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 budgetary basis. The legal level of budgetary control is at the fund level.

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. Fund Balance Classifications

Fund Balances in the governmental fund statements are classified as follows:

Restricted - amounts that have constraints placed on the use of the resources either by external sources such as creditors, grantor, contributors, laws or regulations, or by enabling legislation.

Committed - amounts that have constraints placed on the user of the resources by formal action of the government's highest level of decision making authority, which is the board of directors. The Authority does not currently have any committed fund balances.

Assigned - amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Authority does not currently have a policy in place to determine assigned fund balances.

Unassigned - represents amounts that do not meet the definition of restricted, committed, or assigned.

The Authority does not currently have a policy regarding whether committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those classifications could be used.

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.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

G. Net Assets (continued)

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.

3. Cash and Collateral

Cash at June 30, 2011 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, 2011, the carrying amount of the Authority's cash deposits was \$3,654,250. The bank balance was \$3,654,419. Of the bank balance, 100% was covered by depository

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Notes to Financial Statements (continued)
June 30, 2011

3. Cash and Collateral (continued)

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 \$35,410 represent amounts capitalized related to the issuance of debt less accumulated amortization. Amortization in the amount of \$4,402 was recognized in the current year.

5. Construction in Progress

Construction in Progress represents capitalized project costs in the amount of \$118,900 for infrastructure projects that were not placed in service at June 30, 2011.

6. Restricted Net Assets

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 \$2,565,577 at year end.

Restricted for Debt Service – represents net assets which are restricted to use for debt service, which amounted to \$(1,256,025) at year end.

Restricted for Operations – represents net assets which have no legal or other restrictions, which amounted to \$203,159 at year end.

7. 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.

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 Notes to Financial Statements (continued)
 June 30, 2011

7. Ad Valorem Assessments (continued)

Under the modified accrual basis of accounting, all ad valorem assessments collected by the 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, 2011, 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 15th, three years after the original assessment.

8. 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, 2011 is attributable to ad valorem assessments in the amount of \$201,498.

9. Long-Term Liabilities

The following changes occurred in long-term liabilities during the fiscal year ended June 30, 2011:

	June 30, 2010	Additions	Reductions	June 30, 2011
General Obligation Bonds				
Payable:				
Portion due within one year	\$ 635,000	865,000	635,000	865,000
Portion due after one year	<u>2,365,000</u>	<u>-</u>	<u>865,000</u>	<u>1,500,000</u>
	<u>\$ 3,000,000</u>	<u>865,000</u>	<u>1,500,000</u>	<u>2,365,000</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, 2011

9. Long-Term Liabilities (continued)

The Authority has the following general obligation bonds payable as of June 30, 2011:

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.

\$ 2,365,000

Interest expense on the above bond was \$111,563 as of June 30, 2011. 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
2012	\$ 865,000	86,428
2013-2017	760,000	219,312
2018-2022	740,000	79,492
	\$ 2,365,000	385,232

The Authority issued an additional \$3.0 million of new bonds in fiscal year 2012 for a total issuance of \$6.0 million.

10. Office Lease

The Authority leases office space in Bernalillo, New Mexico with monthly payments of \$480. The lease expires on October 1, 2011 and has no renewal term specified in the lease.

11. 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 has implemented this statement for the year ending June 30, 2011.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Notes to Financial Statements (continued)
June 30, 2011

12. 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.

13. Related Party Transactions

During the year ended June 30, 2011, the Authority paid members of the Board of Directors per diem totaling \$7,980 and had \$2,090 payable to board members at June 30, 2011.

14. Commitments and Contingencies

At June 30, 2011, 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, 2011.

15. Subsequent Events

In October 2011, the Authority issued a \$3,000,000 revenue bond.

The Authority has evaluated subsequent events through December 21, 2011, the date which the financial statements were available to be issued.

OTHER SUPPLEMENTAL INFORMATION

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, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem assessments	\$ -	-	-	-
Grants	-	-	-	-
Interest income	-	-	3,799	3,799
Total revenues	<u>-</u>	<u>-</u>	<u>3,799</u>	<u>3,799</u>
Prior-year cash	<u>2,647,919</u>	<u>2,647,919</u>		
Total revenues budgeted	\$ <u>2,647,919</u>	<u>2,647,919</u>		
Expenditures				
General government	\$ 2,400,000	2,400,000	259,897	2,140,103
Bond issuance costs	-	-	-	-
Total expenditures	\$ <u>2,400,000</u>	<u>2,400,000</u>	<u>259,897</u>	<u>2,140,103</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 17,823	
Adjustments:				
Less: Current year accounts receivable			<u>(14,024)</u>	
Budget basis revenue			\$ <u>3,799</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 233,781	
Adjustments:				
Add: Prior year accounts payable			56,069	
Less: Current year accounts payable			<u>(29,953)</u>	
Budget basis expenditures			\$ <u>259,897</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, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Ad valorem assessments	\$ 800,000	800,000	912,814	112,814
Interest income	500	500	366	(134)
Transfer in	-	-	-	-
Total revenues	<u>800,500</u>	<u>800,500</u>	<u>913,180</u>	<u>112,680</u>
Prior-year cash	<u>752,055</u>	<u>752,055</u>		
Total revenues budgeted	\$ <u>1,553,055</u>	<u>1,553,055</u>		
Expenditures				
General government	\$ 8,300	8,300	10,010	(1,710)
Debt service:				
Principal payments	635,000	635,000	635,000	-
Interest	<u>111,600</u>	<u>111,600</u>	<u>111,563</u>	<u>37</u>
Total expenditures	\$ <u>754,900</u>	<u>754,900</u>	<u>756,573</u>	<u>(1,673)</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 984,206	
Adjustments:				
Add: Prior year accounts receivable			95,367	
Less: Current year accounts receivable			<u>(166,393)</u>	
Budget basis revenue			\$ <u>913,180</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 756,573	
Adjustments: None			<u>-</u>	
Budget basis expenditures			\$ <u>756,573</u>	

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

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Schedule of Cash Account and Pledged Collateral
June 30, 2011

CASH:

First Community Bank NM, NA

Balance per bank	\$ 3,654,419
Less: FDIC coverage	<u>(3,654,419)</u>
Total uninsured public funds	\$ <u> -</u>
Reconciliation to financial statements:	
Balance per bank	\$ 3,654,419
Less: outstanding checks	<u> (169)</u>
Reconciled cash balance per financial statements	\$ <u>3,654,250</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, 2011, and have issued our report thereon dated December 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: finding #2011-2.

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

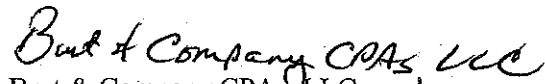
A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 and 2011-3 to be significant deficiencies.

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 are described in the accompanying schedule of findings and responses as findings 2011-4 and 2011-5.

The agency's responses to the findings identified in our audit are 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

December 22, 2011

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Schedule of Findings and Responses
June 30, 2011

I. Prior-Year Audit Findings

Finding #2010-1 – Revenue Recognition - Resolved

Finding #2009-3 – Improper Administration of Procurement Code - Resolved

II. Current-Year Findings Pertaining to the Financial Statements

A. Finding #2011-1 – Grant Revenue Recognition (Significant Deficiency)

Condition: Expenses relating to work performed on a reimbursable grant basis were not recorded as revenue and grant receivable during fiscal year 2011.

Criteria: Grant revenue should be recognized in the audit period that the expense has been incurred.

Cause: Annual closing procedures did not identify discrepancies.

Effect: Revenue and accounts receivable were understated by \$14,024.

Recommendation: The annual financials should be reviewed in relationship to active grant agreements and awards to ensure associated revenues are properly recognized.

Agency Response: The Authority being a relatively new entity is continually working to establish policies and procedures applicable to the size and purpose of the Authority. The Authority is currently developing internal control policies and procedures including but not limited to a year-end-close procedural checklist to identify the timing and type of year end accruals required for the annual financials.

B. Finding #2011-2 – Bank Reconciliation (Material Weakness)

Condition: Bank reconciliations for the general fund and project fund included un-cleared checks that were dated after June 30, 2011.

Criteria: Per NMAC 2.20.5.8(c), all transactions should be properly classified in the agency's records. Financial closing procedures should be adequate to enable proper cut off.

Cause: Closing procedures did not identify discrepancies.

Effect: Cash balances and accounts payable were materially understated.

Recommendation: All checks written at or near year end should be evaluated to determine that they are included in the proper period.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Schedule of Findings and Responses (continued)
June 30, 2011

Agency Response: The subject hand written checks, which do not have carbon copies, were inadvertently entered incorrectly as if dated June 30, 2011. The Authority will retain reproduction copies of all checks issued for reference and review and utilize computer printed checks to avoid data entry errors, enhance efficiency and internal controls.

C. Finding #2011-3 - Account reconciliations (Significant Deficiency)

Condition: Significant accounts were not properly reconciled and/or updated to reflect the financial transactions that occurred with respect to property tax revenue and construction in progress. In addition, the prior year journal entries were not posted in their entirety.

Criteria: Pursuant to 2.20.5.8 NMAC, all reporting of financial information must be timely, complete, and accurate....

Cause: There was turnover in key positions during the year, including the accounting position. In addition, it appears that more time might be required in the accountant position to allow for the appropriate amount of attention to be given to address these matters during the fiscal year.

Effect: Beginning balances were misstated in the debt service fund; Liabilities were understated by \$85,190 and accounts receivable were understated by \$85,190 and property tax related accrual accounts were not reflective of current year activity. In addition, additional time was required to identify current year additions to the construction in progress balance.

Recommendation: The board should consider the need to amend the current accountant's contract to allow for more time to be devoted to the accounting function. In addition, we recommend that all fund level auditor adjustments be posted to the agency's records in the future to help prevent this type of occurrence.

Agency Response: The Authority recognizes the need for the accounting necessary to comply with generally accepted accounting principles (GAAP) and governmental accounting standards board (GASB) statements. The Authority will continue in its efforts to ensure a complete review and understanding of all audit adjustments and the timely posting by contract accountants.

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

A. Finding #2011-4 – Timeliness of Audit Report (Control Deficiency)

Condition: The June 30, 2011 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, 2011. The audit report was submitted December 22, 2011.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Schedule of Findings and Responses (continued)
June 30, 2011

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: Excessive time was needed to reconcile property tax accounts.

Effect: Since the audit report was not delivered to the State Auditor's Office by December 1, 2011, 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: The Authority provided substantially all the items and schedules requested by the audit firm on September 30, 2011. However, the Authority recognizes the need for the financial statements to include the prior period audit adjustments as well as the completion of year-end accruals on or before September 30, annually. The Authority will continue in its efforts to develop its procedural protocol.

B. Finding # 2011-5 – Expenditures in Excess of Budget (Control Deficiency)

Condition: The Authority over expended its budget in the debt service fund by \$1,710.

Criteria: Section 6-6-6 NMSA, 1978 requires that the Authority keep expenditures within the budgeted amounts.

Cause: Management underestimated the required amount of expenditures that would be incurred for this fund.

Effect: Improper monitoring of budgets can create cash short falls.

Recommendation: We recommend the Authority modify the existing policies and procedures governing the budgeting process and continue to monitor the budgets on a regular basis as is currently being done.

Agency Response: Ad Valorem Tax collections for the fiscal year were significantly higher than originally projected. The resulting 1% Tax Distribution Fee accessed by the Sandoval County Treasurer caused the budget over run. The Authority will monitor significant differences in actual to budgeted activities and submit Budget Adjustment Requests as needed.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
June 30, 2011

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 December 21, 2011, to discuss the audit. The following individuals were in attendance:

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

Larry Blair, Consultant
Sal Reyes, Board Chair
Michael Castillo, Executive Engineer
Dennis Williams, Accountant

Independent Auditor – Burt & Company CPAs, LLC

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