

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

**Annual Financial Report
For the Year Ended June 30, 2012
(With Independent Auditors' Report Thereon)**

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 June 30, 2012

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STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Official Roster
as of June 30, 2012

BOARD OF DIRECTORS

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

ADMINISTRATIVE OFFICIALS

Michael Castillo	Executive Engineer
Daniel O. Trujillo, Kubiak & Melton, LLC	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, CITP
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 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, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons for the capital projects fund and debt service fund presented as supplementary information in the accompanying individual fund financial statements as of and for the year ended June 30, 2012, 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 previously 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, 2012, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, as of June 30, 2012, the respective budgetary comparisons for the 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 January 22, 2013 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

State of New Mexico Eastern Sandoval County
Arroyo Flood Control Authority

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. The additional schedule listed as "Other Supplemental Information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Burt & Company CPAs, LLC

January 22, 2013

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Management's Discussion and Analysis
June 30, 2012

CURRENT YEAR ACTIVITIES

Fiscal Year (FY) 2012, the fourth year of ESCAFCA's operation, was marked by much progress toward the construction of ESCAFCA's first flood control facilities, and the completion and FEMA approval of significant revised floodplain maps. This was accomplished despite a major loss in operating revenue, a significant change in board composition and functionality, and the turmoil caused by resignations of legal counsel and accountant.

Designs were finalized and intergovernmental agreements were consummated for two projects: the Athena Pond and Collection System; and the South Hill Pond. (Construction on both projects was subsequently started in fall 2012).

The Athena Pond project is a cooperative venture with the Town of Bernalillo, and consists of a pond excavated on land acquired by the town, which will be configured such that it can also be used as a park and recreation facility. A storm sewer collection system will also be installed in a number of streets to capture storm water and convey it to the pond.

The South Hill Pond will intercept and detain storm water in a pond being built on Sandoval County land.

FEMA approval was finally obtained for revised floodplain maps in eight arroyos in Placitas, thus providing for the removal of hundreds of properties from the floodplain. Additionally, the Las Huertas Arroyo Prudent Line Study was completed, accepted, and distributed. This study defined lines on each side of Las Huertas Creek in Placitas, within which it would not be prudent to build, because of the potential for flooding and/or bank erosion over a 30-year period and a 100-year storm event. The study was funded by a Federal grant, and also identified potential scouring which could expose several pipelines in the creek.

A project to rebuild the Rio Grande levee in partnership with the Army Corps of Engineers moved forward with the signing of a 50-50 cost-share agreement for geotechnical investigation, as the first phase of a Section 205 project.

HB 306, passed by the NM State Legislature, became effective in April 2011. It initiated major changes by deleting all lands east of I-25, resulting in the loss of some 60% of the tax base (and the resulting operating revenue), the reduction of Board membership from 5 to 3, and the change in Board elections from "at-large" to districts. However, authorization remained for the sale of the remaining \$3 million in bonds, which would be retired by taxpayers within the original boundary, including those lands which were deleted. In October 2011, a \$3 million general obligation bond was executed which the NM Finance Authority wholly purchased.

Operations were affected by the resignations of key contractors; legal counsel and accounting. However, arrangement was made with SSCAFCA to use its attorney; and a contract was executed with a new accounting firm for day to day in house accounting services.

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Management's Discussion and Analysis (continued)
June 30, 2012

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.

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, 2012

FINANCIAL POSITION AND RESULTS OF OPERATIONS

Financial information in condensed format comparing fiscal year ending June 30, 2012 (FY 12) with the prior fiscal year ending June 30, 2011 (FY 11) appears in the tables below:

Statement of Net Assets

	<u>2012</u>	<u>2011</u>
Assets:		
Cash	\$ 3,179,432	3,654,250
Ad valorem assessments receivable	149,666	218,517
Assets held in trust	3,000,845	-
Grants receivable	-	14,024
Bond issue cost, net	64,778	35,410
Construction in process	<u>347,974</u>	<u>118,900</u>
Total assets	\$ <u>6,742,695</u>	<u>4,041,101</u>
Liabilities:		
Accounts payable	\$ 39,980	129,418
Accrued interest payable	42,804	33,972
Bonds payable		
Portion due within one year	755,000	865,000
Portion due after one year	<u>3,745,000</u>	<u>1,500,000</u>
Total liabilities	<u>4,582,784</u>	<u>2,528,390</u>
Invested in capital assets, net of related debt		
Unrestricted	184,432	203,159
Restricted:		
For capital projects	2,440,202	2,565,577
For debt service	<u>(464,723)</u>	<u>(1,256,025)</u>
Total net assets	\$ <u>2,159,911</u>	<u>1,512,711</u>

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 Management's Discussion and Analysis (continued)
 June 30, 2012

FINANCIAL POSITION AND RESULTS OF OPERATIONS – (continued)

<u>Statement of Activities</u>	<u>2012</u>	<u>2011</u>
Program expenses:		
Public works:		
General and administrative expenses	\$ 25,174	27,124
Planning and engineering	96,624	207,499
Contractual operating and maintenance costs	232,522	279,527
Bond amortization	4,950	4,402
Election expenses	10,692	10,373
Interest	<u>111,222</u>	<u>105,131</u>
Total program expenses	481,184	634,056
General revenues:		
Ad valorem assessments	1,140,846	1,335,751
Grants	16,165	14,024
Interest income	<u>929</u>	<u>5,470</u>
Total general revenues	<u>1,157,940</u>	<u>1,355,245</u>
Increase in net assets	<u>676,756</u>	<u>721,189</u>
Net assets, beginning of year, as previously stated	1,512,711	791,522
Prior period restatement	<u>(29,556)</u>	-
Net assets, beginning of year, as restated	<u>1,483,155</u>	-
Net assets, end of year	<u>\$ 2,159,911</u>	<u>1,512,711</u>

During the 2012 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 General (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

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Management's Discussion and Analysis (continued)
June 30, 2012

function has been discontinued and no permanent employees have been hired to avoid payroll and payroll related costs.

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 expenditures were repetitive in nature.

FUND LEVEL ACTIVITY

Revenues for the General fund consisted of property tax deposits, and small interest generated by the cash deposits into the bank account. It is noted that Operating fund revenue will be severely reduced because of the secession of all areas east of I-25 (some 60% of the original ESCAFCA area).

Expenditures for the Projects fund included contract engineering costs for planning and coordination of future projects to mitigate flooding, and design and other activities leading to construction of two projects in the Town of Bernalillo. Revenues consisted of interest generated by the cash in bank from the prior year bond proceeds.

Revenues in the Debt Service fund were realized from the tax deposits generated by the property taxes assessed against land owners. It is also noted that Debt Service revenue will not be reduced by the secession, because the legislation passed in HB306 requires all Debt Service to continue to be paid by residents of the original ESCAFCA area.

The annual interest payments were made in August 2011 in the amount of \$50,956, and in February 2012 in the amount of \$51,434. The annual principal payment was made in August of 2011 in the amount of \$865,000. Tax distribution fees amounted to \$9,635, and the Fiscal Agent Fee was \$300 for the year. The year end balance was sufficient to cover the FY13 interest payment in the amount of \$122,494 and principal payment in the amount of \$755,000 made in August of 2012.

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

BUDGETARY PERFORMANCE

On March 8, 2012 the General fund budget of the Authority was revised by increasing the Revenues by \$29,422 bringing total Revenues to \$229,422; and by increasing Expenditures by \$103,670 bringing total Expenditures to \$329,730. These changes resulted in an adjusted budgeted fund balance in the amount of \$100,308.

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 2012.

PLANS FOR FUTURE ACTIVITIES

The Authority is intent on getting two projects out to construction early in FY 2013 (fall of 2012): Athena Pond, a multi-use cooperative project with the Town of Bernalillo; and South Hill Pond, a cooperative project with Sandoval County. Additionally, the Authority is proceeding with a cost-sharing agreement with the US Army Corps of Engineers to begin a Feasibility Study on the Rio

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
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Management's Discussion and Analysis (continued)
June 30, 2012

Grande levee, leading to a Section 205 project to reinforce or reconstruct the existing spoil bank levee. Possibilities for further flood control projects in Bernalillo and Algodones are being constantly explored.

Due to severe reduction in General fund revenue, the Authority will be closely reviewing its operation budget and procedures in FY 2013, especially because a new element of expense will be present: Project Operation and Maintenance.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 Statement of Net Assets
 June 30, 2012

	<u>Governmental Activities</u>
Assets:	
Cash	\$ 3,179,432
Receivable: Ad valorem assessments	149,666
Assets held in trust	3,000,845
Bond issue costs, net of accumulated amortization	64,778
Construction in progress	<u>347,974</u>
Total assets	<u>\$ 6,742,695</u>
Liabilities:	
Accounts payable	\$ 39,980
Accrued interest payable	42,804
General obligation bonds payable:	
Portion due within one year	755,000
Portion due after one year	<u>3,745,000</u>
Total liabilities	4,582,784
Net Assets:	
Invested in capital assets, net of related debt	-
Restricted:	
For capital projects	2,440,202
For debt service	(464,723)
Unrestricted	<u>184,432</u>
Total net assets	<u>\$ 2,159,911</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, 2012

	<u>Governmental Activities</u>
Program expenses:	
Public Works:	
Planning and engineering	\$ 96,624
General and administrative expenses	25,174
Contractual operating and maintenance services	232,522
Bond amortization	4,950
Election expenses	10,692
Interest	<u>111,222</u>
Total program expenses	481,184
General revenues:	
Ad valorem assessments	1,140,846
Grants	16,165
Interest income	<u>929</u>
Total general revenues	<u>1,157,940</u>
Increase in net assets	676,756
Net assets, beginning of year, as previously stated	1,512,711
Prior period restatement	<u>(29,556)</u>
Net assets, beginning of year, as restated	<u>1,483,155</u>
Net assets, end of year	\$ <u>2,159,911</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, 2012

	Major Funds			
	General Fund	Capital Projects Fund	Debt Service Fund	Total Govern- mental Funds
Assets:				
Cash	\$ 172,273	2,047,732	959,427	3,179,432
Receivables:				
Ad valorem assessments	30,912	-	118,754	149,666
Assets held in trust	-	<u>3,000,845</u>	-	<u>3,000,845</u>
Total assets	<u>\$ 203,185</u>	<u>5,048,577</u>	<u>1,078,181</u>	<u>6,329,943</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 18,753	21,227	-	39,980
Deferred revenue	<u>56,264</u>	-	<u>96,198</u>	<u>152,462</u>
Total liabilities	75,017	21,227	96,198	192,442
Fund balances:				
Restricted for debt service	-	-	981,983	981,983
Restricted for capital projects	-	5,027,350	-	5,027,350
Restricted for operations	<u>128,168</u>	-	-	<u>128,168</u>
Total fund balances	<u>128,168</u>	<u>5,027,350</u>	<u>981,983</u>	<u>6,137,501</u>
Total liabilities and fund balances	<u>\$ 203,185</u>	<u>5,048,577</u>	<u>1,078,181</u>	<u>6,329,943</u>

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

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 Reconciliation of the Governmental Funds Balance Sheet to the
 Government-Wide Statement of Net Assets
 June 30, 2012

Total fund balances - governmental funds (Balance Sheet) \$ 6,137,501

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds 347,974

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. 152,462

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	(4,500,000)	
Accrued interest payable	<u>(42,804)</u>	
Total liabilities		(4,542,804)

Bond issue costs are expensed in the period expended for fund financial statements but are capitalized for governmental activities 64,778

Total net assets (Statement of Net Assets) \$ 2,159,911

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, 2012

	Major Funds			Total Govern- mental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Revenues:				
Ad valorem assessments	\$ 220,461	-	969,421	1,189,882
Grants	-	16,165	-	16,165
Interest income	4	903	22	929
Total revenues	220,465	17,068	969,443	1,206,976
Expenditures:				
Current:				
General government	255,402	328,748	9,935	594,085
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	865,000	865,000
Interest	-	-	102,390	102,390
Bond issuance costs	-	34,318	-	34,318
Total expenditures	255,402	363,066	977,325	1,595,793
Excess (deficiency) of revenues over expenditures	(34,937)	(345,998)	(7,882)	(388,817)
Other financing sources (uses):				
Bond proceeds	-	3,000,000	-	3,000,000
Transfers from (to) other funds	37,919	(37,919)	-	-
Total other financing sources	37,919	2,962,081	-	3,000,000
Net change in fund balances	2,982	2,616,083	(7,882)	2,611,183
Fund balances, beginning of year as previously stated	154,742	2,411,267	989,865	3,555,874
Prior period restatement (Note 16)	(29,556)	-	-	(29,556)
Fund balances, beginning of year as restated	125,186	2,411,267	989,865	3,526,318
Fund balances, end of year	\$ 128,168	5,027,350	981,983	6,137,501

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, 2012

Net change in fund balances - governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ 2,611,183
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.	229,074
Governmental funds do not report the net change in accrued interest payable.	(8,832)
Delinquent property taxes receivable are not available financial resources and therefore are reported as deferred revenue in the fund financial statements.	(49,036)
Current year bond payments are reported as an expense in the fund financial statements but applied against debt in the statement of activities.	865,000
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(3,000,000)
Bond issuance costs are not amortized for fund financial statements purposes but are for governmental activities - current year amortization.	<u>29,367</u>
Increase in net assets of governmental activities (Statement of Activities)	\$ <u>676,756</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, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem assessments	\$ 200,000	229,422	241,673	12,251
Interest income	300	300	4	(296)
Copier fees	<u>500</u>	<u>500</u>	<u>-</u>	<u>(500)</u>
Total revenues	<u>200,800</u>	<u>230,222</u>	<u>241,677</u>	<u>11,455</u>
Expenditures:				
General government	226,060	329,730	280,046	49,684
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>226,060</u>	<u>329,730</u>	<u>280,046</u>	<u>49,684</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	<u>(25,260)</u>	<u>(99,508)</u>	<u>(38,369)</u>	<u>61,139</u>
Other-financing sources and uses:				
Transfers from other funds	-	75,838	37,919	(37,919)
Transfers to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>75,838</u>	<u>37,919</u>	<u>(37,919)</u>
Net change in fund balance	<u>(25,260)</u>	<u>(23,670)</u>	<u>(450)</u>	<u>23,220</u>
Prior-year cash balance required to balance budget	\$ <u>194,431</u>	<u>194,431</u>		
Reconciliation of GAAP basis to budgetary basis revenue:				
GAAP basis revenue			\$ 220,465	
Adjustments:				
Add: Prior year accounts receivable			52,124	
Less: Current year accounts receivable			<u>(30,912)</u>	
Budget basis revenue			\$ <u>241,677</u>	
Reconciliation of GAAP basis to budgetary basis expenditures:				
GAAP basis expenditures			\$ 255,402	
Adjustments:				
Add: Prior year accounts payable			43,397	
Less: Current year accounts payable			<u>(18,753)</u>	
Budget basis expenditures			\$ <u>280,046</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, 2012

1. History and Functions

The State of New Mexico Eastern Sandoval County Arroyo Flood Control Authority (ESCAFCA or Authority) was created by the Eastern Sandoval County Arroyo Flood Control Act of 2007 (the Act) and is governed by such New Mexico law created there under designated as 72-20-1 to 72-20-103 NMSA 1978. The purpose of the Act is to provide a flood control system for the benefit of property within the boundaries of the Authority 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, 2012

2. Summary of Significant Accounting Policies (continued)

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

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, 2012

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, 2012

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 thirty 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, 2012

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 the general fund has 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, 2012

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, 2012 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, 2012, the carrying amount of the Authority's cash deposits was \$3,179,432. The bank balance was \$3,180,042. 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, 2012

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. Assets Held in Trust

During the year ending June 30, 2012, the Authority issued its second series of general obligation bonds. Subsequent to issuance, the bonds were purchased by the New Mexico Finance Authority (NMFA) from RBC Capital, the original bond holder. The proceeds of the bonds were transferred to the Bank of New York in NMFA's name on behalf of the Authority, and are to be drawn down incrementally by the Authority via drawdown requests to the NMFA. As the funds are in the name of the NMFA, a third party trustee, they are considered to be assets held in trust.

5. Bond Issuance Costs

Bond issuance costs of \$64,778 represent amounts capitalized related to the issuance of debt less accumulated amortization. Amortization in the amount of \$4,950 was recognized in the current year.

6. Construction in Progress

Construction in Progress represents capitalized project costs in the amount of \$347,974 for infrastructure projects that were not placed in service at June 30, 2012.

7. 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 \$2,440,202 at year end.

Restricted for Debt Service – represents net assets which are restricted to use for debt service, which amounted to \$(464,723) at year end.

Unrestricted – represents net assets which have no legal or other restrictions, which amounted to \$184,432 at year end.

STATE OF NEW MEXICO
 EASTERN SANDOVAL COUNTY
 ARROYO FLOOD CONTROL AUTHORITY
 Notes to Financial Statements (continued)
 June 30, 2012

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 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, 2012, 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.

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, 2012 is attributable to ad valorem assessments in the amount of \$152,462.

10. Long-Term Liabilities

The following changes occurred in long-term liabilities during the fiscal year ended June 30, 2012:

	June 30, 2011	Additions	Reductions	June 30, 2012
General Obligation Bonds				
Payable:				
Portion due within one year	\$ 865,000	755,000	865,000	755,000
Portion due after one year	1,500,000	3,000,000	755,000	3,745,000
	\$ 2,365,000	3,755,000	1,620,000	4,500,000

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, 2012

10. Long-Term Liabilities (continued)

The Authority has the following general obligation bonds payable as of June 30, 2012:

Series 2009 - RBC Capital

\$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. \$ 1,500,000

Series 2011 - New Mexico Finance Authority

\$3,000,000 issued in October 2011, with variable interest from .72% to 3.11% paid semi-annually in February and August, principal payments are due annually commencing August 1, 2012, and maturing August 1, 2023. \$ 3,000,000

Interest expense on the above bonds was \$102,390 as of June 30, 2012. 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
2013	\$ 755,000	122,494
2014-2018	2,525,000	499,438
2019-2023	1,220,000	103,159
	\$ 4,500,000	725,091

11. Office Lease

The Authority leases office space in Bernalillo, New Mexico with monthly payments of \$480, the lease expired on October 1, 2011.

12. Other Financing Services (Uses)

The following transfer occurred during the year. The transfer was used to subsidize the operations for the general fund from the capital project fund in the amount of \$37,919.

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

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Notes to Financial Statements (continued)
June 30, 2012

13. Risk Management (continued)

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, 2012, the Authority paid members of the Board of Directors per diem totaling \$5,890 and had \$0 payable to board members at June 30, 2012.

15. Commitments and Contingencies

At June 30, 2012, contracts were in progress on the Authority's infrastructure projects. These contracts were related to planning and design.

16. Prior Period Restatement

It was determined that the Sandoval County Treasurer had made adjustments to prior years' assessments for ad valorem taxes in the operating fund. These adjustments relating to prior periods resulted in a reduction in the amount of \$29,556 to the Authority's ad valorem taxes receivable and related fund balance.

17. Subsequent Events

In August 2012, and September 2012 the Authority entered into a cost share agreements with the Department of the Army, represented by the U.S. Army Engineer, Albuquerque District, to perform activities and tasks required to provide geotechnical and hydro-geological investigations and analysis of the Rio Grande East spoil bank levee at Bernalillo, New Mexico. The Authority shall contribute 50 percent of total study costs, which may be provided as a combination of cash and in-kind contributions. As of the date of this report the Authority has paid \$325,000 relating to this agreement.

Subsequent to year-end the Town of Bernalillo agreed to allow ESCAFCA to occupy their current office space free of monthly rent.

The Authority has evaluated subsequent events through January 22, 2013, 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, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem assessments	\$ -	-	-	-
Grants	50,000	50,000	30,189	(19,811)
Interest income	<u>150</u>	<u>150</u>	<u>903</u>	<u>753</u>
Total revenues	<u>50,150</u>	<u>50,150</u>	<u>31,092</u>	<u>(19,058)</u>
Expenditures				
General government	1,500,000	1,350,000	135,101	1,214,899
Bond issuance costs	-	50,000	34,318	15,682
Total expenditures	<u>1,500,000</u>	<u>1,400,000</u>	<u>169,419</u>	<u>1,230,581</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	<u>(1,449,850)</u>	<u>(1,349,850)</u>	<u>(138,327)</u>	<u>1,211,523</u>
Other-financing sources and uses:				
Transfers to other funds	-	(75,838)	(37,919)	37,919
Proceeds from bond sale	<u>2,950,000</u>	<u>2,950,000</u>	<u>3,000,000</u>	<u>50,000</u>
Total other financing sources and uses	<u>2,950,000</u>	<u>2,874,162</u>	<u>2,962,081</u>	<u>87,919</u>
Net change in fund balance	<u>1,500,150</u>	<u>1,524,312</u>	<u>2,823,754</u>	<u>1,299,442</u>
Prior-year cash balance required to balance budget	\$ <u>2,483,265</u>	<u>2,483,265</u>		
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 17,068	
Adjustments:				
Add: Prior year accounts receivable			14,024	
Less: Current year accounts receivable			<u>-</u>	
Budget basis revenue			\$ <u>31,092</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 363,066	
Adjustments:				
Add: Prior year accounts payable			86,022	
Less: Current year accounts payable			(21,227)	
Less: Capitalized project cost			(229,074)	
Less: Bond issue costs, net			<u>(29,368)</u>	
Budget basis expenditures			\$ <u>169,419</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, 2012

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Ad valorem assessments	\$ 700,000	994,244	1,017,060	22,816
Interest income	400	366	22	(344)
Transfer in	-	-	-	-
Total revenues	<u>700,400</u>	<u>994,610</u>	<u>1,017,082</u>	<u>22,472</u>
Expenditures				
General government	8,300	10,242	9,935	307
Debt service:				
Principal payments	865,000	865,000	865,000	-
Interest	<u>86,428</u>	<u>102,391</u>	<u>102,390</u>	<u>1</u>
Total expenditures	<u>959,728</u>	<u>977,633</u>	<u>977,325</u>	<u>308</u>
Net change in fund balance	<u>(259,328)</u>	<u>16,977</u>	<u>39,757</u>	<u>22,780</u>
Prior-year cash balance required to balance budget	\$ <u>976,554</u>	<u>976,554</u>		
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 969,443	
Adjustments:				
Add: Prior year accounts receivable			166,393	
Less: Current year accounts receivable			<u>(118,754)</u>	
Budget basis revenue			\$ <u>1,017,082</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 977,325	
Adjustments: None			<u>-</u>	
Budget basis expenditures			\$ <u>977,325</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, 2012

CASH:

U.S. Bank NM, NA

Balance per bank	\$ 3,180,042
Less: FDIC coverage	<u>(3,180,042)</u>
Total uninsured public funds	\$ <u>-</u>

Reconciliation to financial statements:

Balance per bank	\$ 3,180,042
Less: outstanding checks	<u>(610)</u>
Reconciled cash balance per financial statements	\$ <u>3,179,432</u>

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



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, and the related budgetary comparisons presented as supplemental information 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, 2012, and have issued our report thereon dated January 22, 2013. 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

Management of ESCAFCA is responsible for establishing and maintaining effective 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 #2011-3.

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

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*, and is listed as finding # 2011-4 in the statement of findings and responses.

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

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


Burt & Company CPAs, LLC

January 22, 2013

STATE OF NEW MEXICO
EASTERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
Schedule of Findings and Responses
June 30, 2012

I. Prior-Year Audit Findings

- A. Finding #2011-1 – Grant Revenue Recognition - Resolved
- B. Finding #2011-2 – Bank Reconciliation – Resolved
- C. Finding #2011-3 – Account Reconciliation – Repeated and Modified
- D. Finding #2011-4 – Timeliness of Audit Report - Repeated
- E. Finding # 2011-5 – Expenditures in Excess of Budget - Resolved

II. Current-Year Findings Pertaining to the Financial Statements

A. Finding #2011-3 - Account reconciliations (Material Weakness)

Condition: Significant accounts were not properly reconciled and/or updated to reflect the financial transactions that occurred with respect to property tax revenue. This resulted in understated accounts receivable of \$128,856, understated deferred revenue of \$152,462, and overstated revenue of \$23,606. In addition, accounts payable reflected two invoices that related to work performed in fiscal year 2013, which overstated liabilities and expenses by \$2,411.

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: Assets, liabilities, expenses and revenues were misstated because of the condition noted above.

Recommendation: Property tax related accrual accounts should be rolled forward during the fiscal year to properly reflect current delinquencies. In addition, accounts payable should be reviewed to determine that only services occurring during the fiscal year and not paid as of June 30 should be accrued at year end.

Agency Response: The Authority recognizes the need for accounting efforts necessary to address the condition and the recommendation. The Authority will also contact the County Treasurer's office in July to ascertain property tax in arrears as of the end of the fiscal year.

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ARROYO FLOOD CONTROL AUTHORITY
Schedule of Findings and Responses (continued)
June 30, 2012

III. Findings in accordance with N.M.A.C. 2.2.2.

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

Condition: The June 30, 2012 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, 2012. The audit report was submitted January 25, 2013.

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, 2012, 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: Information on delinquent and protested tax revenue [receivable] was not forthcoming from the County Treasurer until after December 1, 2012, leading to late submittal. Henceforth, the Authority will request said information from the County Treasurer in July [see finding 2011-3, above]. In addition, State guidance on how to treat the delinquent tax revenue, and guidance on the NMFA loan delayed submittal. These two questions have been resolved. The Authority will increase its management control to ensure timely submission.

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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 28, 2012, to discuss the audit. The following individuals were in attendance:

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

Larry Blair, Consultant
Salvador Reyes, Board Chair

Independent Auditor – Burt & Company CPAs, LLC

Ronald E. Schranz, CPA, CVA