

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2009

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
TABLE OF CONTENTS
JUNE 30, 2009

INTRODUCTORY SECTION

	<u>Page</u>
Official Roster	i

FINANCIAL SECTION

Independent Auditor's Report	1-2
Management's Discussion and Analysis.....	3-6
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities.....	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	9
Reconciliation of the Balance Sheet to the Statement of Net Assets.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) Budget and Actual-General Fund.....	13-14
Notes to the Financial Statements	15-29
Supplemental Information:	
Individual Fund Budgetary Comparison Schedules (Non-GAAP Budgetary Basis) Budget and Actual:	
Debt Service Fund.....	30
Capital Projects Fund.....	31
Schedule of Cash Accounts and Pledged Collateral.....	32
Schedule of Joint Powers Agreements	33-34
Schedule of Special Appropriations	35
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	36-37
Schedule of Findings and Responses	38
Current Year Findings	39-42
Exit Conference	43

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
OFFICIAL ROSTER
JUNE 30, 2009

BOARD OF DIRECTORS

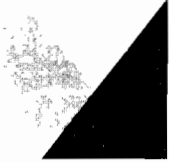
Mark Conkling
Donald Rudy
William Yarbrough
Steve House
John Chaney

Chairman
Chair Pro Tem
Treasurer
Secretary
Chair Pro Tem
(alternate)

EXECUTIVE PERSONNEL

David Stoliker, PE
Perry Baird
Debbie Casaus, CPA

Executive Director
Fiscal Services Director
Accounting Officer



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Southern Sandoval County Arroyo Flood Control Authority as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedules for the debt service fund and the capital projects fund presented as supplementary information in the accompanying individual fund financial statements as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the 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 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 the 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 Southern Sandoval County Arroyo Flood Control Authority as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparisons for the governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2009 on our consideration of Southern Sandoval County Arroyo Flood Control Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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 financial statements that collectively comprise the Southern Sandoval County Arroyo Flood Control Authority's basic financial statements and the budgetary comparison schedules for the debt service fund and the capital projects fund presented as supplementary information. The Schedules of Cash Accounts and Pledged Collateral, Joint Powers Agreements and Special Appropriations are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mackie, Reid & Company

Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
November 12, 2009

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

The Southern Sandoval County Arroyo Flood Control Authority (the "Authority" or "SSCAFCA") management discussion and analysis includes: (i) an explanation of the Authority's basic financial statements, including the relationships of the statements to one another and the significant differences in the information they provide; (ii) an analysis of the overall financial position of the Authority including current year results of operations in comparison with the previous year; (iii) a discussion of the capital assets of the Authority including significant additions to capital assets and any related debt activity; (iv) an analysis of significant variations between budgeted and actual amounts of revenues and expenditures; and (v) a discussion of the Authority's plans for future activities/projects which may have a significant impact on its financial position.

Overview of Financial Statements

The financial statements of the Authority are presented in two parts: government-wide financial statements and fund financial statements. Government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies and consist of the statement of net assets and the statement of activities. Fund financial statements consist of a balance sheet, a statement of revenues, expenditures and changes in fund balance, and a budgetary comparison schedule for each of the funds used by the Authority: general, debt service and capital projects fund. See Notes to Financial Statements, No. 2-Summary of Significant Accounting Policies for a more detailed discussion of the two types of financial statements of the Authority.

Financial Position and Current Year Results of Operations

Financial information in condensed form comparing fiscal year ending June 30, 2009 (FY09) with fiscal year ending June 30, 2008 (FY08) appears in the tables below:

Comparative Statement of Net Assets (\$000)

	<u>FY09</u>	<u>FY08</u> <u>(as restated)</u>	<u>Incr/(decr)</u> <u>09 over 08</u>
Assets			
Current Assets	8,826	9,126	(300)
Capital Assets	60,790	52,761	8,029
Other Assets	<u>148</u>	<u>116</u>	<u>32</u>
Total Assets	<u>69,764</u>	<u>62,003</u>	<u>7,761</u>
Liabilities			
Current Liabilities	2,134	1,527	607
Noncurrent Liabilities	<u>21,376</u>	<u>18,926</u>	<u>2,450</u>
Total Liabilities	<u>23,510</u>	<u>20,453</u>	<u>3,057</u>
Net Assets			
Investment in capital assets net of related debt	38,280	33,121	5,159
Restricted for:			
Debt Service	1,864	1,555	309
Capital Projects	4,804	5,517	(713)
Unrestricted	<u>1,306</u>	<u>1,357</u>	<u>(51)</u>
Total Net Assets	<u>46,254</u>	<u>41,550</u>	<u>4,704</u>

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

Comparative Statement of Activities (\$000)

	<u>FY09</u>	<u>FY08</u> <u>(as restated)</u>	<u>Incr/(decr)</u> <u>09 over 08</u>
Expenses:			
Governmental Activities			
General Government	(2,141)	(2,820)	679
Depreciation	(603)	(490)	(113)
Interest expense	(810)	(714)	(96)
Total expenses	<u>(3,554)</u>	<u>(4,024)</u>	<u>470</u>
Program Revenue			
Non-cash capital contributions	1,903	4,727	(2,824)
Operating grants	853	-	85
Other grants	<u>1,631</u>	<u>932</u>	<u>699</u>
Total program revenue	<u>4,387</u>	<u>5,659</u>	<u>(1,272)</u>
General Revenue			
Property taxes	3,811	3,330	481
Investment	60	301	(241)
Net gains on disposition of property & other	<u>-</u>	<u>859</u>	<u>(859)</u>
Total General Revenue	<u>3,871</u>	<u>4,490</u>	<u>(619)</u>
Change in Net Assets	4,704	6,125	(1,421)
Net Assets-beginning of year	<u>41,550</u>	<u>35,425</u>	<u>6,125</u>
Net Assets-end of year	<u>46,254</u>	<u>41,550</u>	<u>4,704</u>

The financial position of the Authority has improved significantly in FY09. This can be seen in the increase in total net assets of approximately \$5.0 million. Capital assets increased by \$8 million which consists of purchased right-of-way, completed capital projects and non-cash capital contributions in the form of easements and fee simple right-of-way, as discussed in detail below. Total liabilities of the Authority increased by \$3.1 million, which is primarily due to the issuance of the Series 2009 Bonds in February, 2009.

Property tax revenue in the General Fund increased by approximately \$159,000 in FY09 over FY08. The operational tax rate for FY09 was set at 0.612 mills, a decrease of 0.012 mills over FY08. This decrease is the result of the application of the yield control provisions of State law which serve to limit the growth of tax revenue to agencies due to the reassessment of taxable values of property. The total assessed value of property with the boundaries of SSCAFCA was \$2,183,696,138 in FY08 and \$2,493,535,171 in FY09 resulting in a 14.2% increase in total assessed valuation. This growth resulted from both new construction (6.9%) and re-assessment activities of the Sandoval County Assessor (7.3%). The total assessed value of taxable property within the boundaries of the Authority has increased an average of 20% each year over the past ten years and at an average annual rate of 22% over the past five years. For future budgeting purposes, it is expected that a conservative growth rate in the range of 7-12% will continue in the near term.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

The end of year fund balance in the General Fund decreased by approximately \$116,000 in FY09 over FY08. The decrease is due in part to increased expenditures in the General Fund, which is due in part to an increase in personnel, increased operations and maintenance expense of SSCAFCA facilities, and a one-time transfer to the construction fund of \$120,000.

The end of year fund balance in the Debt Service Fund increased by approximately \$183,000 in FY09 over FY08 due to the 14.2% increase in the total assessed valuation and no offsetting decrease in the tax rate. The increase in revenues was partially offset by an increase in principal and interest payments resulting in a year end fund balance of approximately \$2 million.

The end of year fund balance in the Capital Projects Fund was approximately \$4.8 million for FY09 vs. \$5.5 million for FY08, a decrease of approximately \$0.7 million. This lower fund balance is the result of the bond proceeds being \$2 million less in FY09 than FY08 and non-cash contributions were \$2.8 million less in FY09. Investment income in FY09 was \$200,000 less than FY08 due to lower interest rates.

Capital Assets and Long-Term Debt

Capital assets of the Authority as of 6/30/09 include \$24.5 million in non-depreciable land and easements. The increase of \$4.7 million over FY08 represents non-cash contributions from developers in the amount of \$1.9 million and purchased flood control right-of-way in the amount of \$2.8 million. The contributions are comprised of easements and fee simple right-of-way primarily in arroyo bottoms, made in connection with agreements with developers whereby the Authority assumes responsibility for operation and maintenance of flood control facilities constructed by the developers. In addition to non-cash contributions, approximately 30 acres of flood control right-of-way were purchased at a cost of \$2.8 million.

Other capital assets as of the end of FY09 include infrastructure facilities which have an estimated useful life of 70 years and a value of \$32.9 million, net of accumulated depreciation. Additions to capital assets in FY09 include the Sunset/Aldaba Pond valued at \$2 million (constructed by SSCAFCA). Construction in progress on future infrastructure facilities amounts to \$2,209,848 as of 6/30/09. The remainder of the Authority's capital assets as of 6/30/09 are comprised of its office building valued at \$1,079,930, which includes a newly expanded parking lot; four vehicles and furniture and equipment at \$170,317, all net of accumulated depreciation.

SSCAFCA has \$22,510,000 outstanding in general obligation bonds as of 6/30/09 versus \$19,640,000 at 6/30/08. The increase is attributed to the issuance of \$4,000,000 Series 2009 G.O. Bonds in February 2009. This is the first issuance of \$18,000,000 that was authorized by the voters in November 2008. Through unanimous support by the New Mexico Legislature, SSCAFCA's bonding capacity was increased from \$30 million to \$60 million.

Total bonded debt is made up of eight series of general obligation bonds (Series 1998, 1999, 2001, 2005, 2005A, 2007, 2007A and 2009) which are scheduled to be retired over the next 13 years. The total proceeds of these seven series of bonds amounts to \$27,000,000, which has been, or will be, spent on the acquisition and/or design and construction of flood control system capital projects.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

Budgetary Performance

Total general fund expenditures in FY09 were \$514,000 less than total appropriations. Various factors contributed to the budget surplus including the delay in filling the new drainage/design engineer position as well as a half-time fiscal services position. Savings were achieved in other line items such as operations and maintenance in which specific projects were delayed until the next fiscal year. Management takes great pride in these cost savings. Also, extended right-of-way negotiations resulted in delays in acquisitions, resulting in budgetary savings in that line item.

Plans for Future Activities

A \$6.945 million G.O. bond issue, consisting of \$4.5 million for capital projects and \$2.445 million for the refunding of a portion of the Authority's Series 1999 and Series 2001 Bonds, is planned for early 2010.

The Authority is actively exploring all sources of revenue available to it. We are aggressively seeking grant funding and working with other local governments to pursue the possibility of further joint powers agreements.

Completion of a major addition (approximately 5,000 sq. ft.) to the SSCAFCA office building is expected in late 2009. This expansion of offices and other work space is urgently needed in light of recent additions to the Authority's staff.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>
Assets	
Cash	\$ 787,994
Investments	7,409,153
Receivables:	
Ad valorem assessments	443,786
Grant	157,702
Interest	1,437
Prepaid expenses	25,532
Bond issue costs, net of accumulated amortization	148,335
Capital assets	
Land and easements	24,465,639
Depreciable buildings, property and infrastructure, net of accumulated depreciation	34,114,184
Construction in progress	<u>2,209,848</u>
Total assets	<u>69,763,610</u>
Liabilities	
Accounts payable	384,214
Salaries and benefits payable	50,371
Accrued interest payable	359,292
Accrued compensated absences-	
Payable within one year	79,405
Payable after one year	86,572
General obligation bonds payable-	
Portion due within one year	1,260,000
Portion due after one year	21,250,000
Bond premium, net of accumulated amortization	<u>39,506</u>
Total liabilities	<u>23,509,360</u>
Net assets	
Invested in capital assets, net of related debt	38,279,671
Restricted:	
For capital projects	4,804,330
For debt service	1,864,227
Unrestricted	<u>1,306,022</u>
Total net assets	\$ <u>46,254,250</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	<u>Governmental Activities</u>
Program expenses	
Public Works:	
Personnel services	\$ 625,365
Employee benefits	211,735
Planning and engineering	611,725
General and administrative expenses	501,442
Contractual operating and maintenance services	178,249
Election expenses	12,095
Depreciation	603,127
Interest	<u>810,072</u>
Total program expenses	<u>3,553,810</u>
Program revenue	
Charges for services:	
Other revenue	9,400
Noncash capital contributions	1,903,231
Operating grant	852,646
Special appropriation grants for capital projects	782,000
Capital grants and agreements	<u>839,959</u>
Total program revenue	<u>4,387,236</u>
Net program revenue	833,426
General revenues	
Ad valorem assessments	3,811,211
Investment income	<u>59,372</u>
Total general revenues	<u>3,870,583</u>
Increase in net assets	4,704,009
Net assets, beginning of year as previously reported	41,261,792
Restatement	<u>288,449</u>
Net assets, beginning of year as restated	<u>41,550,241</u>
Net assets, end of year	\$ <u>46,254,250</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash	\$ 787,994	\$ -	\$ -	\$ 787,994
Investments	445,861	1,965,078	4,998,214	7,409,153
Receivables:				
Ad valorem assessments	185,664	258,122	-	443,786
Grant	247	-	157,455	157,702
Interest	89	319	1,029	1,437
Prepaid expenses	<u>25,532</u>	<u>-</u>	<u>-</u>	<u>25,532</u>
Total assets	\$ <u>1,445,387</u>	\$ <u>2,223,519</u>	\$ <u>5,156,698</u>	\$ <u>8,825,604</u>
 <u>Liabilities and fund balances</u>				
Liabilities				
Accounts payable	\$ 31,846	\$ -	\$ 352,368	\$ 384,214
Salaries and benefits payable	50,371	-	-	50,371
Deferred revenue	<u>163,117</u>	<u>226,226</u>	<u>-</u>	<u>389,343</u>
Total liabilities	<u>245,334</u>	<u>226,226</u>	<u>352,368</u>	<u>823,928</u>
 Fund balances				
Reserved for petty cash	200	-	-	200
Reserved for debt service	-	1,997,293	-	1,997,293
Reserved for construction projects and related costs	-	-	4,804,330	4,804,330
Unreserved:				
Designated for subsequent year expenditures	511,763	-	-	511,763
Designated for general budget reserve	205,939	-	-	205,939
Board designated general reserve	<u>482,151</u>	<u>-</u>	<u>-</u>	<u>482,151</u>
Total fund balances	<u>1,200,053</u>	<u>1,997,293</u>	<u>4,804,330</u>	<u>8,001,676</u>
Total liabilities and fund balances	\$ <u>1,445,387</u>	\$ <u>2,223,519</u>	\$ <u>5,156,698</u>	\$ <u>8,825,604</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total fund balances – governmental funds (Balance Sheet)		\$ 8,001,676
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.		60,789,671
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.		389,343
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	\$ (22,510,000)	
Accrued interest payable	(359,292)	
Accrued compensated absences	(<u>165,977</u>)	
Total liabilities		(23,035,269)
Bond issue costs are expensed in the period expended for fund financial statements but are capitalized for governmental activities		148,335
Bond premiums received are recognized as other financing sources in the period received for fund financial statements but are amortized for governmental activities		(<u>39,506</u>)
Total net assets (Statement of Net Assets)		\$ <u>46,254,250</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Ad valorem assessments	\$ 1,521,309	\$ 2,122,586	\$ -	\$ 3,643,895
Investment income	8,652	7,451	43,269	59,372
Operating grant revenue	-	-	852,646	852,646
Noncash capital contributions	-	-	1,903,231	1,903,231
Capital grants and agreements	-	-	839,959	839,959
Special appropriation grants for capital projects	-	-	782,000	782,000
Charges for services:				
Other revenue	<u>9,400</u>	<u>-</u>	<u>-</u>	<u>9,400</u>
Total revenues	<u>1,539,361</u>	<u>2,130,037</u>	<u>4,421,105</u>	<u>8,090,503</u>
Expenditures				
Current:				
General government	1,471,756	-	643,645	2,115,401
Capital outlay	63,641	-	8,568,170	8,631,811
Debt service				
Principal	-	1,130,000	-	1,130,000
Interest	-	829,707	-	829,707
Bond issuance costs	<u>-</u>	<u>-</u>	<u>41,647</u>	<u>41,647</u>
Total expenditures	<u>1,535,397</u>	<u>1,959,707</u>	<u>9,253,462</u>	<u>12,748,566</u>
Excess (deficiency) of revenues over expenditures	<u>3,964</u>	<u>170,330</u>	<u>(4,832,357)</u>	<u>(4,658,063)</u>
Other financing sources (uses)				
Budget transfers	(120,000)	-	120,000	-
Bond premium	-	12,736	-	12,736
Bond proceeds	<u>-</u>	<u>-</u>	<u>4,000,000</u>	<u>4,000,000</u>
Total other financing sources	<u>(120,000)</u>	<u>12,736</u>	<u>4,120,000</u>	<u>4,012,736</u>
Net changes in fund balances	(116,036)	183,066	(712,357)	(645,327)
Fund balances, beginning of year	<u>1,316,089</u>	<u>1,814,227</u>	<u>5,516,687</u>	<u>8,647,003</u>
Fund balances, end of year	\$ <u>1,200,053</u>	\$ <u>1,997,293</u>	\$ <u>4,804,330</u>	\$ <u>8,001,676</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Net change in fund balances – governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ (645,327)
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 the cost of these assets is capitalized	8,631,811
Governmental funds do not report depreciation expense which is recorded in the statement of activities	(603,127)
Governmental funds do not report the net change in accrued interest payable	26,547
Delinquent property taxes receivable are not available financial resources and therefore are reported as deferred revenue in the fund financial statements	167,316
Governmental funds do not report the net change in compensated absences	(25,208)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets	(4,000,000)
Current year bond premiums received are reported as an other financing source in the fund financial statements but is capitalized in the statement of activities	(12,736)
Bond premium is not amortized for fund financial statement purposes but are for governmental activities – current year amortization	2,263
Current year bond issue costs are reported as an expense in the fund financial statements but are capitalized in the statement of activities	41,647
Bond issuance costs are not amortized for fund financial statement purposes but are for governmental activities – current year amortization	(9,177)
The repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets	<u>1,130,000</u>
Increase in net assets of governmental activities (Statement of Activities)	\$ <u>4,704,009</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS) BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2009

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 1,499,247	\$ 1,499,247	\$ 1,511,746	\$ 12,499
Interest	15,000	15,000	13,423	(1,577)
Miscellaneous	<u>-</u>	<u>-</u>	<u>9,153</u>	<u>9,153</u>
Total revenues	<u>1,514,247</u>	<u>1,514,247</u>	<u>1,534,322</u>	<u>20,075</u>
Expenditures				
Salaries	645,372	645,372	586,435	58,937
Benefits and taxes	256,550	256,550	210,969	45,581
Administrative fee	36,000	36,000	36,742	(742)
Audit expense	20,000	20,000	10,675	9,325
Board meetings	22,000	22,000	17,782	4,218
Contractual services	202,000	202,000	190,447	11,553
Election expense	70,000	70,000	18,232	51,768
Equipment rental	1,000	1,000	64	936
Insurance and bonds	65,000	65,000	63,739	1,261
Legal ads and notices	7,000	7,000	18,935	(11,935)
Maintenance	25,000	25,000	19,037	5,963
Membership fees	15,000	15,000	10,109	4,891
Miscellaneous	3,610	3,610	8,412	(4,802)
Moving and storage expense	2,000	2,000	1,320	680
Office supplies	12,000	12,000	10,125	1,875
Paying agent expense	8,000	8,000	2,140	5,860
Printing	10,000	10,000	10,230	(230)
Planning and engineering	40,000	40,000	118	39,882
Property tax	1,000	1,000	6,962	(5,962)
Postage	2,000	2,000	2,604	(604)
Staff mileage	3,000	3,000	1,623	1,377
Training	30,000	30,000	20,767	9,233
Subscriptions	3,000	3,000	1,173	1,827
Telephone	14,000	14,000	12,526	1,474
Utilities	10,000	10,000	7,881	2,119
Operations and maintenance	395,000	395,000	189,204	205,796
Furniture and equipment	62,000	62,000	2,519	59,481
Computers, software and mapping	50,000	50,000	32,846	17,154
Capital equipment - vehicle	<u>30,000</u>	<u>30,000</u>	<u>32,214</u>	<u>(2,214)</u>
Total expenditures	<u>2,040,532</u>	<u>2,040,532</u>	<u>1,525,830</u>	<u>514,702</u>

(continued)

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS) BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (<u>Unfavorable</u>)
Excess (deficiency) of revenues over expenditures	\$ (526,285)	\$ (526,285)	\$ 8,492	\$ 534,777
Transfer out to Capital project fund	(<u>120,000</u>)	(<u>120,000</u>)	(<u>120,000</u>)	_____ -
Net changes in fund balance	\$ (<u>646,285</u>)	\$ (<u>646,285</u>)	\$ (<u>111,508</u>)	\$ <u>534,777</u>
Prior year fund balance – budget basis	\$ <u>1,346,770</u>			

(concluded)

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(1) Organization

The Southern Sandoval County Arroyo Flood Control Authority (Authority) was created by the Arroyo Flood Control Act and is governed by such New Mexico law created there under designated as 72-19-1 to 72-19-103 NMSA 1978. The purpose of the Act is to provide a flood control system for the benefit of property within the boundaries of the Authority within Southern Sandoval County New Mexico. The Act provides for organization and the governing body and officers; provides for flood control facilities; specifies provisions relating to powers, duties, privileges, liabilities, loans, securities, taxes, revenues and finances; and prescribes reactions 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 accompanying financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). These statements include:

- Presentation of management's discussion and analysis (MD&A) which provides an analysis of the District's overall financial position and results of operations.
- Presentation of financial statements prepared using full accrual accounting for all Authority activities including reporting capital assets and related depreciation.

Other significant accounting policies of the Authority are discussed 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 has no component units.

(b) Government-Wide and Fund Financial Statements

For its government-wide activities, the Authority has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has no business type activities.

The government-wide financial statements (the statement of net assets and the statement of activities) report information based on the Authority as a whole.

The statement of net assets incorporates long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts - invested in capital assets net of related debt; restricted net assets, and unrestricted net assets.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(b) Government-Wide and Fund Financial Statements (continued)

The statement of activities indicates the degree to which the direct expenses of a given function are offset by related program revenues. Program revenues include (1) charges for services, (2) noncash capital contributions, (3) operating grants, and (4) capital grants and agreements.

The net cost (by function) is normally covered by general revenues (ad valorem assessments and interest revenue). The Authority does not currently employ indirect cost allocation systems.

Separate fund financial statements provide reports on the financial condition and results of operations for major individual funds. The Authority's activities are all governmental activities and the Authority did not have proprietary or fiduciary funds during the year ended June 30, 2009. The General Fund, the Debt Service Fund, and the Capital Projects Fund have been classified as major funds. There were no non-major funds.

The fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliations are presented which briefly explain the differences between the fund financial statements and the government-wide financial statements.

(c) Fund Accounting

The financial activities of the Authority are recorded in individual funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Authority resources are allocated to and accounted for in individual funds based upon the purpose which they are to be spent and the means by which spending activities are controlled. The Authority's financial activities have been classified into the following governmental funds:

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

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

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

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(d) Basis of Accounting

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

The fund financial statements are presented using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Ad valorem assessments and contract and grant revenue from entities are considered available if collected within thirty days of year end and agreement requirements have been met. Investment earnings are considered available when earned. Other revenues are generally considered measurable and available only when cash is received by the Authority.

(e) Prepaid Expenses

Prepaid expenses consist of insurance costs that have been prepaid for the next fiscal year. These costs will be recognized as expenditures in the next fiscal year.

(f) Capital Assets

Capital assets, which include property, equipment, and infrastructure are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets which have a cost of \$1,000 or more at the date of acquisition. Capital assets purchased, constructed, or acquired are carried at historical cost or estimated historical cost. The Authority capitalizes purchased software and has no internally developed software. Contributed assets are recorded at the fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal repairs and maintenance are expensed as incurred.

The Authority does not capitalize interest in regards to any of its capital assets.

The Authority owns certain infrastructure assets including dams, ponds and drainage channels. The Authority also owns title to various sections of land and has drainage easements associated with their infrastructure. The property rights underneath and around all major facilities have been capitalized at actual or estimated historical cost or fair market value for contributed assets.

Construction in progress represents projects for which expenditures have occurred, but which have not been placed in service.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(f) Capital Assets (continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Authority estimates the useful lives of capital assets as follows:

Buildings and improvements	40 years
Office furniture and equipment	7-12 years
Computer equipment and purchased software	7-8 years
Motor vehicles	10 years
Infrastructure	70 years
Fencing	10 years

(g) Compensated Absences

Qualified employees are entitled to accumulate amounts of annual leave which is payable to the employee upon termination or retirement. Annual leave accrues at the rate of eighty hours per year. Employees with over five years of service accrue annual leave at the rate of one hundred twenty hours per year. Employees with over ten years of service accrue annual leave at the rate of one hundred sixty hours per year. Employees with over fifteen years of service accrue annual leave at the rate of two hundred hours per year. The maximum accrual of annual leave is 280 hours. At June 30, 2009, accrued vested annual leave totaled \$64,094.

Qualified employees are entitled to accumulate sick leave which is payable to the employee upon retirement. Sick leave accrues at the rate of one hundred four hours per year. Sick leave hours in excess of 1200 hours may be converted to annual leave hours at the rate of two for one. Employees may convert all or a portion of accumulated sick leave to early retirement leave immediately prior to retirement. The balance of accumulated sick leave may be converted to a cash payment at retirement. At June 30, 2009, accrued accumulated sick leave amounted to \$101,883.

The government-wide financial statements present the cost of accumulated annual leave and sick leave as a liability, valued at the current rate of pay.

h) 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 carries commercial insurance for these risks of loss, including workers' compensation and employee health and accident insurance. Settled claims, excluding insurance deductibles, resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(i) Fund Balance Reserves and Designations

Reservations of fund balances are created to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved for Debt Service – represents funds which are restricted to use for debt service

Reserved for Construction Projects – represents funds which are restricted to use for construction projects and related costs

The designation of fund balance reflects tentative plans for the future use of financial resources. The designation for subsequent year expenditures are amounts necessary to balance the 2009-2010 year budget. The amount designated for general budget reserve is in accordance with State budget guidelines and represents 1/12 of budgeted expenditures for the year ending June 30, 2010. The Authority also records reserves to indicate that a portion of fund balance is segregated for a specific future use or is not available for appropriation or expenditure.

(j) Restricted Net Assets/Reserved Fund Balances

The Authority records restricted net assets when there are legal limitations imposed on their use by law. These same legal limitations are reflected as reservations of fund balance. If restricted and unrestricted assets are available for the same purpose, then restricted net assets will be used before unrestricted net assets.

(k) 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 DFA. The Authority submits a proposed budget to the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) for the fiscal year commencing the following July 1. DFA must approve the budget prior to its legal enactment.

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

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

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(l) Inter-fund Transfers

Inter-fund transfers are recorded as other financing uses in the transferor fund and other financing sources in the recipient fund. During the year ended June 30, 2009, \$120,000 was transferred from the General Fund to the Capital Projects Fund to fund current capital project expenditures. These transfers have been eliminated in the government wide financial statements.

(m) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and of revenues and expenses during the reporting period, and where applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results could differ from those estimates.

(n) Noncash Capital Contributions

The Authority's purpose is to provide a flood control system for the benefit of property within the boundaries of the Authority. Pursuant to Authority policies and practices certain infrastructure assets including land, easements, dams, ponds and drainage channels are contributed to the Authority. These contributions may come from other governmental entities or from private parties whose development activities are subject to the oversight of the Authority. These assets are then the continuing responsibility of the Authority. The Authority records the fair market value of these assets at the date of contribution as program revenues described as noncash capital contributions and as capital expenditures.

(3) Stewardship, Compliance and Accountability

Current year budgeted expenditures and transfers exceeded budgeted revenues in the general fund by \$646,285 and in the Capital projects fund by \$5,175,920. Prior year cash and investment balances were used to complete the budget process for these funds.

(4) Cash

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

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, 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.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(4) Cash (continued)

At June 30, 2009, the carrying amount of the Authority's cash deposits was \$787,994. The bank balance was \$835,973. Of the bank balance, 100% was covered by depository insurance under the FDIC temporary Transaction Account Guarantee Program. This program, implemented October 14, 2008, provides depositors with unlimited coverage for non-interest bearing transaction accounts of participating banks. Prior to the program's implementation, the Authority's deposits were collateralized with securities held by the pledging financial institution's trust department.

(5) Investments

The Authority does not have a formal investment policy that addresses investment interest rate and credit risks. The Authority has invested funds in the New Mexico state Treasurer's Local Government Investment Pool.

The Authority's investments at June 30, 2009 consisted of:

- Four accounts in the New Mexico State Treasurer's Local Government Investment Pool (Pool), which are stated at fair value (\$6,274,271), based on quoted market prices as of June 30, 2009.
- Four accounts under the direction of the New Mexico State Treasurer's Local Government Investment Pool upon which certain assets exposed to liquidation litigation were transferred to a Reserve Contingency Fund, which are stated at estimated net recoverable value (\$129,257). The Authority has recorded an investment value reduction of \$17,993 on these accounts during the year ended June 30, 2009.
- A certificate of deposit at a local financial institution which is stated at cost/market value (\$1,005,625).

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts in the fund were invested. Participation in the local government investment pool is voluntary.

The State Treasurer Local Government Investment Pool Reserve Contingency Fund represents a portion of the Pool that was invested by the New Mexico State Treasurer's Office in the Reserve Primary Fund. The Reserve Primary Fund's net assets value fell below \$1 in September, 2008 and the holdings in the fund were frozen. In February, 2009, the Reserve Primary Fund announced that it was withholding assets from the fund for anticipated and pending litigation. In March, 2009 the Pool's position in the Reserve Primary Fund was transferred to the Reserve Contingency Fund. The State Treasurer's Office cannot anticipate what the actual loss on the Fund may be or when the actual loss may be realized.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(5) Investments (continued)

The Certificate of Deposit carries interest at 2.25%, matures October 30, 2009 and is potentially subject to custodial credit risk in the event of bank failure. The carrying amount of the Certificate was \$1,005,625, of which \$250,000 was covered by federal deposit insurance and \$755,625 was collateralized with collateral held in the pledging financial institution's name and are held by an agent of the pledging financial institution. Accordingly, the Authority's deposit was exposed to custodial risk at June 30, 2009.

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment in the Pool is subject to credit risk. The Pool is rated AAAM, by Standard and Poor's. The Reserve Contingency Fund is not rated and is a non-performing asset.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The prices of securities fluctuate with market interest rates and securities held in a portfolio will decline if market interest rates rise. The Pool's weighted average maturity (WAM) is the key determinant of the tolerance of the investments to rising interest rates. In general, the longer the WAM, the more susceptible the investments are to rising interest rates. At June 30, 2009 the Pool's WAM is 43 days. The Reserve Contingency Fund is a non-rated, non-performing asset, and its WAM cannot be calculated.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2009, the Pool investments, the Reserve Contingency Fund, and the Certificate of Deposit were all in U.S. dollar-denominated assets, and as such were not subject to foreign currency risk.

(6) 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, 2009, the ad valorem assessments levied by the Authority were \$0.612 and \$0.87 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.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(7) Capital Assets

The following is a summary of changes in capital assets:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Transfers/ Dispositions</u>	<u>June 30, 2009</u>
Land and easements -				
Operating land	\$ 228,500	\$ -	\$ -	\$ 228,500
Fee simple and easement land	<u>19,524,854</u>	<u>4,712,285</u>	-	<u>24,237,139</u>
Total land and easements	<u>19,753,354</u>	<u>4,712,285</u>	-	<u>24,465,639</u>
Depreciable property				
Building and improvements	1,102,730	152,467	-	1,255,197
Furniture, equipment, and vehicles	280,270	63,625	-	343,895
Flood control system - Dams, ponds and drainage channels	<u>36,257,220</u>	<u>1,839,586</u>	<u>687,982</u>	<u>38,784,788</u>
Total depreciable assets	<u>37,640,220</u>	<u>2,055,678</u>	<u>687,982</u>	<u>40,383,880</u>
Less accumulated depreciation:				
Building and improvements	(145,431)	(29,836)	-	(175,267)
Furniture, equipment and vehicles	(147,278)	(26,300)	-	(173,578)
Flood control systems- Dams, ponds and drainage channels	<u>(5,373,860)</u>	<u>(546,991)</u>	-	<u>(5,920,851)</u>
Total accumulated depreciation	<u>(5,666,569)</u>	<u>(603,127)</u>	-	<u>(6,269,696)</u>
Net depreciable buildings, property, and infrastructure	<u>31,973,651</u>	<u>1,452,551</u>	<u>687,982</u>	<u>34,114,184</u>
Construction in progress	<u>1,033,982</u>	<u>1,863,848</u>	<u>(687,982)</u>	<u>2,209,848</u>
Total capital assets, net	\$ <u>52,760,987</u>	\$ <u>8,028,684</u>	\$ <u>-</u>	\$ <u>60,789,671</u>

Beginning construction in progress has been restated as described in Note 16.

Depreciation expense amounted to \$603,127 for the year ended June 30, 2009 and is included under program expenses of governmental activities in the statement of activities.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(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, 2009 is attributable to ad valorem assessments in the amount of \$389,343.

(9) Long-Term Liabilities

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

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>
Accrued Compensated Absences:				
Payable within one year	\$ 33,676	\$ 85,657	\$ 39,928	\$ 79,405
Payable after one year	<u>107,093</u>	<u>-</u>	<u>20,521</u>	<u>86,572</u>
	<u>140,769</u>	<u>85,657</u>	<u>60,449</u>	<u>165,977</u>
General Obligation Bonds Payable:				
Portion due within one year	1,130,000	1,260,000	1,130,000	1,260,000
Portion due after one year	<u>18,510,000</u>	<u>4,000,000</u>	<u>1,260,000</u>	<u>21,250,000</u>
	<u>19,640,000</u>	<u>5,260,000</u>	<u>2,390,000</u>	<u>22,510,000</u>
	\$ <u>19,780,769</u>	\$ <u>5,345,657</u>	\$ <u>2,450,449</u>	\$ <u>22,675,977</u>

The Authority uses the general fund to liquidate annual leave liabilities. General obligation bonds are paid by the debt service fund.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(9) Long-Term Liabilities (continued)

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

<u>Series 1998</u>	
\$2,500,000, issued June, 1998, with variable interest from 4.7% to 5.3% paid semi-annually in February and August, principal payments due annually commencing August 1, 2005, maturing August 1, 2010.	\$ 550,000
<u>Series 1999</u>	
\$2,000,000, issued August, 1999, with variable interest from 4.4% to 5.9% paid semi-annually in February and August, principal payments due annually commencing August 1, 2000 maturing August 1, 2011.	665,000
<u>Series 2001</u>	
\$2,500,000 issued February 2001, with variable interest from 4.25% to 5.5% paid semi-annually in February and August, principal payments due annually commencing August 1, 2006, maturing August 1, 2013.	2,300,000
<u>Series 2005</u>	
\$3,000,000, issued February, 2005, with variable interest from 3.0% to 4.0% paid semi-annually in February and August, principal payments due annually commencing August 1, 2005 maturing August 1, 2018.	2,800,000
<u>Series 2005A</u>	
\$3,000,000 issued October 25, 2005, with variable interest from 3.7% to 4.0% paid semi-annually in February and August, principal payments due annually commencing August 1, 2006, maturing August 1, 2019.	2,475,000
<u>Series 2007</u>	
\$4,000,000 issued February 1, 2007, with variable interest from 3.75% to 4.0% paid semi-annually in February and August, principal payments due annually commencing August 1, 2009, maturing August 1, 2020	4,000,000
<u>Series 2007A</u>	
\$6,000,000 issued October 10, 2007, with variable interest from 3.65% to 4.0% paid semi-annually in February and August, principal payments due annually commencing August 1, 2008, maturing August 1, 2020	5,720,000
<u>Series 2009</u>	
\$4,000,000 issued February 18, 2009, with variable interest from 3.0% to 3.8% paid semi-annually in February and August, principal payments due Annually commencing August 1, 2014, maturing August 1 2022	<u>4,000,000</u>
	\$ <u>22,510,000</u>

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(9) Long-Term Liabilities (continued)

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

Debt service requirements to maturity are as follows:

<u>Due in Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,260,000	\$ 840,647
2011	1,475,000	787,994
2012-2016	9,655,000	2,836,416
2017-2021	8,295,000	1,058,332
2022-2023	<u>1,825,000</u>	<u>69,150</u>
Total	\$ <u>22,510,000</u>	\$ <u>5,592,539</u>

The authority anticipates issuing an additional \$4.5 million of new bonds and refunding bonds of \$2.445 million for a total issuance of \$6.945 million. The new bond issuance will be addressed by the Board in November, 2009.

(10) Pension Plan – Public Employees Retirement Association (PERA)

Plan Description

All of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 3.2875% of their gross salary. (The Authority pays 75% of the employee contribution rate of 13.15%) The Authority is required to contribute 19.0125% of the plan member's gross salary. The contribution requirements of plan members and the Authority are established in state statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's contributions to PERA for the years ending June 30, 2009, 2008, and 2007 were \$112,966, \$79,173, and \$66,107, respectively, which is equal to the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(11) Post-Employment Benefits – State Retiree Health Care Plan

Plan Description

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(11) Post-Employment Benefits – State Retiree Health Care Plan (continued)

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

The Authority's contributions to the RHCA for the years ended June 30, 2009, 2008, and 2007 were \$7,344, \$5,413 and \$2,272, respectively, which equal the required contribution for each year.

(12) Deferred Compensation Plan

The Authority has adopted a deferred compensation plan. All of the Authority's full-time employees are eligible to participate. The International City Management Association Retirement Corporation is the plan administrator. The plan provides for retirement benefits. Employees may elect to defer any percentage of pre-income tax income up to a federally imposed annual dollar amount. Participation is voluntary. Participants direct their funds into a variety of funds held by Vantage Trust Funds. Accounts are 100% vested at all times.

(13) Budgetary Basis of Accounting

The Budgetary Comparison Schedules for the governmental funds (NON-GAAP Budgetary Basis) Budget and Actual reflects actual results of operations on the budgetary basis of accounting (cash basis).

The major differences between the budgetary and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when measurable and available (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability was incurred (GAAP).

Adjustments necessary to convert the results of operations at June 30, 2009 from the budget basis to the GAAP basis are shown below:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Excess (deficiency) of revenues over expenditures (Budgetary Basis)	\$ 8,492	\$ 158,721	\$ (4,295,844)
Adjustments:			
To adjust revenue accruals:			
Prior year	(14,796)	(19,904)	(521,648)
Current year	19,835	31,513	144,241
To adjust expenditure accruals and payments:			
Prior year	45,478	-	193,262
Current year	(55,045)	-	(352,368)
Excess(deficiency) of revenues over expenditures (GAAP Basis)	\$ <u>3,964</u>	\$ <u>170,330</u>	\$ <u>(4,832,357)</u>

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(14) Operating Grant

During the year ended June 30, 2009, the Authority received grant amendments pertaining to a Federal grant for which all expenditures were incurred in a prior year. These amendments authorized \$852,646 in revenues to be recognized in 2009 that had not been anticipated as of the prior year end. This amount has been included in current year revenues as a change in accounting estimate.

(15) Commitments

At June 30, 2009, construction contracts were in progress on the Authority's building expansion which totaled \$1,441,163. \$411,017 had been expended on these contracts for work performed as of June 30, 2009. The remaining construction commitment of \$1,030,146 is anticipated to be completed in the year ending June 30, 2010.

(16) Net Asset Restatement

The government-wide financial statements reflect an increase to beginning net assets of \$288,449 which represents the correction of an error that had under-capitalized costs to Construction in Progress at June 30, 2008.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS) BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 2,090,296	\$ 2,090,296	\$ 2,107,982	\$ 17,686
Interest on investments	<u>12,000</u>	<u>12,000</u>	<u>10,446</u>	(<u>1,554</u>)
Total revenues	<u>2,102,296</u>	<u>2,102,296</u>	<u>2,118,428</u>	<u>16,132</u>
Expenditures				
Debt service:				
Principal	1,130,000	1,130,000	1,130,000	-
Interest	<u>829,707</u>	<u>829,707</u>	<u>829,707</u>	-
Total expenditures	<u>1,959,707</u>	<u>1,959,707</u>	<u>1,959,707</u>	-
Excess of revenues over expenditures	<u>142,589</u>	<u>142,589</u>	<u>158,721</u>	<u>16,132</u>
Other Financing Sources				
Bond premiums	-	-	<u>12,736</u>	<u>12,736</u>
Total other financing sources	-	-	<u>12,736</u>	<u>12,736</u>
Net changes in fund balance	\$ <u>142,589</u>	\$ <u>142,589</u>	\$ <u>171,457</u>	\$ <u>28,868</u>
Prior year fund balance- budget basis	\$ <u>1,794,323</u>			

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS) BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Investment income	\$ 95,000	\$ 95,000	\$ 67,276	\$ (27,724)
Grant revenue	2,439,414	2,439,414	1,988,047	(451,367)
Capital grants and agreements	789,909	789,909	839,959	50,050
Asset sales	<u>325,000</u>	<u>325,000</u>	-	(325,000)
Total revenues	<u>3,649,323</u>	<u>3,649,323</u>	<u>2,895,282</u>	<u>(754,041)</u>
Expenditures				
Bond issuance expenses	-	-	41,647	(41,647)
Contractual services	-	-	8,574	(8,574)
Legal ads/notices	-	-	2,249	(2,249)
Miscellaneous	-	-	2,716	(2,716)
Furniture and equipment	-	-	14,462	(14,462)
Capital projects and related costs	8,945,243	12,945,243	7,109,383	5,835,860
Election expense	<u>-</u>	<u>-</u>	<u>12,095</u>	<u>(12,095)</u>
Total expenditures	<u>8,945,243</u>	<u>12,945,243</u>	<u>7,191,126</u>	<u>5,754,117</u>
Deficiency of revenues over expenditures	(5,295,920)	(9,295,920)	(4,295,844)	5,000,076
Other Financing Sources				
Bond proceeds	-	4,000,000	4,000,000	-
Transfer in from General Fund	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>-</u>
Total other financing sources	<u>120,000</u>	<u>4,120,000</u>	<u>4,120,000</u>	<u>-</u>
Net changes in fund balance	\$ <u>(5,175,920)</u>	\$ <u>(5,175,920)</u>	\$ <u>(175,844)</u>	\$ <u>5,000,076</u>
Prior year fund balance- budget basis	\$ <u>5,188,300</u>			

See accompanying notes to financial statements.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF CASH ACCOUNT AND PLEDGED COLLATERAL
JUNE 30, 2009

CASH:

WELLS FARGO BANK NM, NA

Balance per bank	\$ 835,973
Less: FDIC coverage	(835,973)
Total uninsured public funds	\$ _____
Reconciliation to financial statements:	
Checking account balance	\$ 787,794
Petty cash	_____ 200
Reconciled cash balance per financial statements	\$ <u>787,994</u>

INVESTMENTS:

FIRST COMMUNITY BANK

Certificate of Deposit, balance per bank	\$ 1,005,625
Less: FDIC coverage	(250,000)
Total uninsured public funds	<u>755,625</u>
50% Collateral requirement	377,813
Pledged Securities	<u>835,543</u>
Over (under)	\$ <u>457,730</u>

Collateralized as follows (Securities held in safekeeping at the Federal Home Loan Bank, Dallas):

<u>Description</u>	<u>Cusip #</u>	<u>Face Value</u>	<u>Interest Rate</u>	<u>Due</u>	<u>Collateral Value</u>
MBS GNMA I Platinum	36241KWU8	\$ 661,978	6.0%	11/15/23	\$ 707,481
FHR 3047 kA	31396CHY9	120,681	7.0%	08/15/23	<u>128,062</u>
					\$ <u>835,543</u>

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF JOINT POWERS AGREEMENTS
JUNE 30, 2009

JPA # 09-04

PARTICIPANTS: City of Rio Rancho
Southern Sandoval County Arroyo Flood Control Authority

RESPONSIBLE PARTY FOR OPERATIONS: City of Rio Rancho

DESCRIPTION: To assist in the opening of the new Sue Cleveland High School located in Rio Rancho by mutually cooperating in the construction and improvement of the roadway and associated drainage improvements, as part of the mutual effort to jointly solve drainage and flood control problems in the Barrancas Arroyo Watershed.

EFFECTIVE DATES: March 11, 2009 – earlier of project completion date or March 11, 2010

PROJECT COSTS: Total estimated amount of project: \$ 1,689,080
Portion applicable to Southern Sandoval County Arroyo Flood Control Authority \$ 170,000

AMOUNT CONTRIBUTED IN CURRENT FISCAL YEAR: \$ 170,000

AUDIT RESPONSIBILITY: City of Rio Rancho

GOVERNMENT AGENCY WHERE REVENUES AND EXPENDITURES ARE REPORTED: City of Rio Rancho

JPA 08-28

PARTICIPANTS: Town of Bernalillo
Southern Sandoval County Arroyo Flood Control Authority

RESPONSIBLE PARTY FOR OPERATIONS: Southern Sandoval County Arroyo Flood Control Authority

DESCRIPTION: To prepare a Watershed Management Plan for the Unnamed Watershed that is east of 528 and extends to the river which would include a water quality feature in the vicinity of Nazcon Road and Sheriff's Posse Road.

EFFECTIVE DATES: November 17, 2008 – earlier of project completion or November 17, 2010

PROJECT COSTS: Total estimated amount of project: \$ 9,500
Portion applicable to Southern Sandoval County Arroyo Flood Control Authority \$ 4,750

AMOUNT CONTRIBUTED IN CURRENT FISCAL YEAR (from Town): \$ -

AUDIT RESPONSIBILITY: Southern Sandoval County Arroyo Flood Control Authority

GOVERNMENT AGENCY WHERE REVENUES AND EXPENDITURES ARE REPORTED: Southern Sandoval County Arroyo Flood Control Authority

(continued)

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF JOINT POWERS AGREEMENTS
JUNE 30, 2009

JPA # 08-05

PARTICIPANTS: City of Rio Rancho
Southern Sandoval County Arroyo Flood Control Authority

RESPONSIBLE PARTY FOR OPERATIONS: Southern Sandoval County Arroyo Flood Control Authority

DESCRIPTION: Construct the 19th Avenue Dam

EFFECTIVE DATES: March 20, 2008 – earlier of project completion date or March 11, 2012

PROJECT COSTS: Total estimated amount of project: \$ 1,000,000

AMOUNT CONTRIBUTED IN CURRENT FISCAL YEAR (city): \$ 789,909

AUDIT RESPONSIBILITY: Southern Sandoval County Arroyo Flood Control Authority

GOVERNMENT AGENCY WHERE REVENUES AND EXPENDITURES
ARE REPORTED: Southern Sandoval County Arroyo Flood Control Authority

(concluded)

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF SPECIAL APPROPRIATIONS
JUNE 30, 2009

07-L-G-5481 Laws of 2007 Chapter 42 68-612

AMOUNT: \$400,000

DESCRIPTION: To plan, design and construct drainage projects to provide flood control for phase 1 of unit 17 for the Southern Sandoval Country Arroyo Flood Control Authority in Rio Rancho, Sandoval County

EFFECTIVE DATES: January 25, 2008 – June 30, 2010

EXPENDITURES TO
JUNE 30, 2009: \$400,000

07-L-G-5466 Laws of 2007 Chapter 42 68-597

AMOUNT: \$50,000

DESCRIPTION: To purchase land for, plan, design, and construct flood control improvements for the Southern Sandoval Country Arroyo Flood Control Authority in Rio Rancho, Sandoval County

EFFECTIVE DATES: January 25, 2008 – June 30, 2010

EXPENDITURES TO
JUNE 30, 2009: \$50,000

**2008 SEVERANCE TAX, SB471, CHAPTER 92, SECTION 24, SUBSECTION 23
PROJECT NUMBER ST-7543(238), CONTROL NUMBER C8S305**

AMOUNT: \$332,000

DESCRIPTION: To plan, design, and construct drainage improvements including paving, curbs and right of way acquisition in the Chamiza Estates area, for the Southern Sandoval Country Arroyo Flood Control Authority in Sandoval County

EFFECTIVE DATES: September 10, 2008 – June 30, 2012

EXPENDITURES TO
JUNE 30, 2009: \$332,000



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
Southern Sandoval County Arroyo Flood Control Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities and each major fund of Southern Sandoval County Arroyo Flood Control Authority (Authority), as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 12, 2009. We have also audited the budgetary comparison schedules for the debt service fund and the capital projects fund presented as supplementary information for the year ended June 30, 2009. 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as item number 9-1 to be a significant deficiency in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance and matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 9-2, 9-3, and 9-4.

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

This report is intended solely for the information and use of management, the Board of Directors and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Mackie, Reid & Company

Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
November 12, 2009

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Prior Year Findings

There were no prior year audit findings

Current Year Findings

- 9-1 Capitalization procedures
- 9-2 Fixed assets
- 9-3 Documentation of journal entries
- 9-4 Utilization of the GASB 34 fund

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Current Year Findings

9-1 Capitalization procedures

Condition:

The capitalization procedures of the Authority do not require a reconciliation of totals in the capital expenditure accounts to the sum of (1) properly expensed items and (2) properly capitalized items. There were several items for which the capital expenditure was made in one fiscal year but was not capitalized until a subsequent fiscal year when the project was completed. This condition resulted in a prior period adjustment of \$288,449 to the Construction in Progress detail at June 30, 2008. Additionally, for the year ended June 30, 2009, completed capital assets and work in progress additions totaling \$442,883 were omitted from the capitalization entries, and capitalization entries included \$49,008 of amounts that were either double counted or counted prior to their actual expenditure at June 30, 2009.

Criteria:

Accounting procedures of the Authority must ensure that all current year expenditures for Land Acquisition, Planning and Engineering, Construction, and Equipment are properly included in capital asset records.

Effect:

Expenditures could be capitalized in a different accounting period than when the expenditure occurred.

Cause:

Procedures for capturing costs for capitalization as fixed assets are not reconciled to the actual General Ledger expenditure accounts.

Recommendation:

The Authority utilizes project codes in the general ledger system as individual expenditures are made. We recommend that the detail general ledger for each capital expenditure account be subtotaled by project code at year end. This report should form the basis for a reconciliation of entries to the capital asset accounts. Expenditures that represent repairs or other costs not meeting capitalization criteria should be identified as part of that process. An overall reconciliation of total expenditures to the sum of the capitalized costs and properly expensed costs should be documented as part of the process.

Responses:

Capitalization procedures will be updated to include the recommended reconciliation process. Additionally, we will establish year end cut-off procedures for expenditures to facilitate the reconciliation process.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Current Year Findings

9-2 Fixed Assets

Condition:

The Authority is utilizing a capitalization policy of \$1,000 for recording fixed asset additions. The Audit Act (Section 12-6-10 NMSA 1978) requires that government entities capitalization policies be updated to capitalize only chattels and equipment that cost over \$5,000.

The Authority utilizes its final detail depreciation report to conduct a physical inventory each year and identify any assets that are missing, no longer in service, or otherwise obsolete. However, the report has not been signed as certified by an agent of the Authority. State regulations requires that governmental entities record their annual inventory in a written report that is certified as to correctness and signed by the governing authority of the entity.

Criteria:

The Authority's fixed asset policies has not been updated to comply with the State regulations.

Effect:

The Authority is not in full compliance with the State regulation.

Cause:

The Authority was not aware of the \$5,000 and certification requirement.

Recommendation:

We recommend that the Authority update its policy for capitalization to \$5,000 in order to comply with regulations. We encourage the Authority to continue to maintain a separate accountability report for those items costing less than \$5,000. We recommend that the Authority update its format for the annual fixed asset inventory report to include the certification required by regulation.

Responses:

We retained a capitalization policy with a \$1,000 threshold for recording fixed assets thinking that the more restrictive requirement would meet State regulations. SCAFCA Board Resolution 2009-16, adopted on 10/16/09 increases our capitalization threshold to \$5,000 and provides for Board certification of the Authority's annual inventory of fixed assets. We will, henceforth, only capitalize fixed assets that cost over \$5,000, and we will ensure that our written annual inventory is certified by our Board of Directors.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Current Year Findings

9-3 Documentation of journal entries

Condition:

The Authority does not maintain a dedicated file for written documentation of adjusting journal entries and the support for these entries. Additionally, current procedures do not provide for review and approval of journal entries.

Although documentation in support of entries noted in the general ledger was found to exist in various locations, maintaining a centralized location for documenting journal entries, with support attached, would improve internal control over the general ledger and reduce the likelihood for errors. It would further make a review and approval procedure for entries easier to achieve and document.

Criteria:

Internal control practices would be enhanced by subjecting adjusting journal entries to detail documentation and approval procedures as established by policy.

Effect:

Journal entries are not consistently documented aside from the posting in the detail general ledger activity. Entries are not subject to review and approval similar to disbursements and other transactions of the Authority.

Cause:

Journal entries are not subject to standard procedures, including review and approval, and centralized document retention.

Recommendation:

We recommend that the Authority utilize the journal entry worksheet used for year-end entries to document all journal entries made during the year. A binder should be maintained so that all entries can be accessed in a central location. A review process should be established as appropriate.

Response:

A journal entry binder will be maintained to ensure easy accessibility, and a review and approval process will be implemented as recommended.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Current Year Findings

9-4 Utilization of the GASB 34 (400) fund

Condition:

The Authority has created a system within the general ledger to account for all items required to convert the fund financial statements to the government wide financial statements. This system provides for the capturing of full accrual information, thereby simplifying the financial statement preparation process at year end. However, the system has not been fully maintained for the past few years as the previous auditors elected to not use the fund information.

Criteria:

The Authority has created an effective general ledger system for capturing all the information required for government wide financial statements.

Effect:

Current information needed to create the government-wide financial statements was not fully recorded in the Authority's general ledger. Given the Authority's desire to draft their own financial statements, updated general ledger information would be necessary.

Cause:

The Authority did not maintain all the required current information on the general ledger system.

Recommendation:

We recommend that the Authority undertake the necessary steps to fully utilize the fund system created in prior years.

Response:

We will develop a process whereby the necessary steps are taken to fully utilize and maintain the GASB 34 (400) fund.

STATE OF NEW MEXICO
SOUTHERN SANDOVAL COUNTY
ARROYO FLOOD CONTROL AUTHORITY
JUNE 30, 2009

An exit conference was held on November 24, and the contents of this report were discussed. Present at the conference were:

Dub Yarborough	Treasurer
Donald Rudy	Board Member
David Stoliker, PE	Executive Director
Perry Baird	Contract Accountant
Debbie Casaus	Accounting Officer
Jim Van Der Geest, CPA	Independent Auditor
Debra Saunders	Independent Auditor

Financial Statement Preparation

The Authority's financial statements were prepared substantially by the independent auditor, Mackie Reid, and Company, PA.