

**STATE OF NEW MEXICO
NEW MEXICO BORDER AUTHORITY
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2012
(WITH INDEPENDENT AUDITORS'
REPORT THEREON)**

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STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
OFFICIAL ROSTER
June 30, 2012

Board of Directors – New Mexico Border Authority

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New Mexico Economic Development Department

John Sanchez, Ex-Officio, Lt. Governor, State of New Mexico

Bill Connor, Las Cruces

Robert McNiel, New Mexico

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Martha Skinner, Columbus

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Sean Cunniff, Office of the Attorney General

Administrative Services

William Mattiace, Director, New Mexico Border Authority

Barbara Brazil, Acting ASD Director



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Independent Auditors' Report

To the Board of Directors of
State of New Mexico, New Mexico Border Authority
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities and each major fund and the budgetary comparisons of the general fund and major special revenue funds of the State of New Mexico, New Mexico Border Authority (the 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 have also audited the budgetary comparison for the major capital projects fund presented as supplemental information 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of New Mexico that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2012, and the changes in its financial position and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of and for the year ended June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and major special revenue funds 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 above present fairly, in all material respects, the budgetary comparison for the major capital projects fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the Authority's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 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 Standards 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 combining and individual fund financial statements and the budgetary comparisons. The additional schedules listed as 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.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 17, 2012

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The State of New Mexico, New Mexico Border Authority's (the Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position and identify any financial issues or concerns. The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities and financial changes.

As management of the Authority, we offer readers this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2012.

Authority Overview

The Authority is administratively attached to one of 28 cabinet level departments within the executive branch of the New Mexico State Government (New Mexico Economic Development Department). Founded by state statute in 1991, 58-27-4, the Authority's mission is to encourage and foster development of the state by developing port facilities and infrastructure at international ports of entry; to attract new industries and business to the New Mexico Border; and to assist industries, businesses and the traveling public with their efficient and effective use of ports and related facilities. The Authority began its operations as a separate State Government Agency in 1992.

The Authority is legislatively established as an independent executive branch agency operating in the capacity of a public "port authority" at our international border with Mexico. The Authority is mandated under the Border Development Act, Section 58-27-1 et seq., NMSA 1978, to provide leadership in development of infrastructure (on both sides of the border) that will support and foster an increase in trade activity at federal ports of entry. The agency serves as a point of contact for those interested in opportunities related to shipping/crossing international trade goods through the ports. To accomplish its assigned mission, the agency works continuously with the local trade community, local government jurisdictions and the federal border enforcement agencies, not only in the United States but also in the State of Chihuahua and in Mexico City. The agency serves as the border point of contact for the Governor and as the eyes and ears of the state's Congressional delegation in matters related to the border. The agency promotes and markets our ports of entry as an integral part of our border development partnership with Chihuahua and our trade platform with Mexico. The NMBA supports the proposed study for the Sunland Park-Anapra port of entry.

Financial Highlights

- In the fiscal year ended June 30, 2012, the total assets of the Authority exceeded total liabilities by \$1,286,131.
- The Authority received a building through a transfer in the amount of \$600,100.
- Of the \$1,228,814 in total current assets, nearly 100% was in the form of cash.
- The total cost of Authority programs was \$428,195, whereas the total Authority revenue was \$1,103,908 including an asset transfer from the NM General Services Department in the amount of \$600,100.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements, 3) budget and actual comparisons, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's financial statements, 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 total 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 or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by appropriations, taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Authority include economic development, program support, technology commercialization and community development. Within the Authority, there are no business-type activities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into two categories: general funds and special revenue funds.

Governmental Funds - Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The Authority currently maintains four governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund (48000), Hazmat Grant Fund (02900), Capital Outlay Fund (03600) and Border Development Grant Fund (05600).

**STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

The Authority adopts an annual appropriated budget for its General Fund. The basic governmental fund financial statements can be found on pages 15 and 17 of this report.

Other Information. In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found on pages 39 through 49 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$1,286,131 at the close of the 2012 fiscal year.

At the end of the 2012 fiscal year, the Authority is able to report positive balances in the category of net assets.

Governmental activities increased the Authority's net assets by \$675,713.

Financial Analysis of Governmental Funds

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Authority's financial requirements.

As of the end of the 2012 fiscal year, the Authority's governmental funds reported combined ending fund balances of \$634,302, an increase of \$91,612 in comparison with the prior year. The majority of this amount is derived from State General Fund appropriations and constitutes unreserved fund balance, which will not revert to the general fund and is available for spending in the following fiscal year. The remainder of fund balance is reserved, indicating that it is committed and not available for spending.

The general fund is the chief operating fund of the Authority. At the end of the 2012 fiscal year, unassigned fund balance of the general fund was \$389,631.

During the 2012 fiscal year, the fund balance of the Authority's general fund decreased by \$100,983.

**STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Financial Analysis of the Authority as a Whole

Net Assets

The information below summarizes the Authority's net assets as of June 30, 2012. Net assets for Governmental Activities were \$1,286,131.

The Authority's Net Assets

| As of June 30, | <u>2012</u> | <u>2011</u> |
|---|-------------------------|-------------------------|
| Governmental Activities: | | |
| Assets: | | |
| Current and other assets | \$ 1,228,814 | \$ 1,135,089 |
| Capital and non-current assets | <u>668,504</u> | <u>85,006</u> |
| Total assets | <u>\$ 1,897,318</u> | <u>\$ 1,220,095</u> |
| Liabilities: | | |
| Current liabilities | <u>\$ 611,187</u> | <u>\$ 647,700</u> |
| Total liabilities | <u>611,187</u> | <u>647,700</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 668,504 | 85,006 |
| Restricted | 244,671 | 52,076 |
| Unrestricted, subsequent years' expenditures | <u>372,956</u> | <u>435,313</u> |
| Total net assets | <u>1,286,131</u> | <u>572,395</u> |
| Total liabilities and net assets | <u>\$ 1,897,318</u> | <u>\$ 1,220,095</u> |

**STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Statement of Activities.

The Authority's change in net assets for fiscal year 2012 was \$675,713 (Statement of Activities). Approximately 30 percent of the Authority's revenue came from State General Fund Appropriations in FY 12.

The following table details the changes in net assets from the Statement of Activities.

| As of June 30, | <u>2012</u> | <u>2011</u> |
|--|---------------------|--------------------|
| Governmental Activities: | | |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 172,408 | \$ 226,059 |
| Total program revenues | <u>172,408</u> | <u>226,059</u> |
| General revenues: | | |
| State General Fund appropriations, net | 331,400 | 364,700 |
| Transfer in - Capital Asset | <u>600,100</u> | <u>-</u> |
| Total general revenues | <u>931,500</u> | <u>364,700</u> |
| Total revenues | <u>1,103,908</u> | <u>590,759</u> |
| Expenses: | | |
| Border Authority development | <u>428,195</u> | <u>349,797</u> |
| Total expenses | <u>428,195</u> | <u>349,797</u> |
| Other financing uses | <u>-</u> | <u>(38,023)</u> |
| Increase in net assets | 675,713 | 202,939 |
| Net assets, beginning of year | 572,395 | 369,456 |
| Restatements | 38,023 | - |
| Net assets, beginning of year restated | <u>610,418</u> | <u>369,456</u> |
| Net assets, ending | <u>\$ 1,286,131</u> | <u>\$ 572,395</u> |

**STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2012

Financial Analysis of the Department's Funds

Capital Assets and Debt Administration

The Authority had \$668,504 in capital assets for the year ended June 30, 2012.

The Authority did not have any long-term debt for the year ended June 30, 2012.

Currently Known Facts, Decisions or Conditions Expected to Have an Effect on Operations

The Authority has achieved the following:

Trade with Mexico processed through New Mexico ports of entry has increased from \$742 million in 2001 to about \$17.8 billion in 2012. The vast majority of trade flows through Santa Teresa and is wide-ranging, including livestock, cement and cement products, chile and beans, candy, construction equipment, automobile parts, scrap metal, computers and hundreds of other commodities.

In 2008, Foxconn, a Taiwanese contract manufacturer of consumer electronics, and one of the largest employers in the world, approached the Border Authority and asked its assistance in locating at Jeronimo, just across the border from Santa Teresa. The agency assisted Foxconn in meetings with Mexican and U.S. Customs as well as the U.S. General Services Administration to make sure the proposed Foxconn operation was feasible. Infrastructure plans by the NMBA increased additional commercial lanes and added a rail by pass.

Today, the Foxconn facility at Jeronimo is the largest industrial site in northern Mexico, employing over 6,500 employees. Foxconn management and technical staff live in or near Santa Teresa and manufacturing imports flow through Santa Teresa-based logistics operations. Foxconn, which plans three additional phases equal to its first, is the anchor operation that is already attracting major new industry to both sides of the border at Santa Teresa. According to NAFTA, 6 million U.S. jobs depend on trade with Mexico.

Traffic through New Mexico ports has sharply increased in the past twelve years. Last year, over 2.1 million visitors crossed annually at the Mexico-New Mexico Ports of Entry. Northbound non-commercial traffic through the port has increased 450% in the past twelve years, from approximately 81,000 vehicles in 2000 to over 500,000 vehicles in 2012.

The Border Authority continually works with the Congressional delegation, U.S. Customs and Border Protection, the U.S. General Services Administration, and state agencies to assure the expansion of port facilities and staffing to accommodate new trade and traffic. Similar work with the Mexican government has also been a key to success. Mexican staffing and facilities necessary for temporary permitting of American vehicles in Mexico were established at the Jeronimo at the agency's request. Now, more travelers to the Mexican interior cross at Santa Teresa during the holiday season than cross at the El Paso ports.

**STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

At the close of 2012, over \$40 million in design and construction projects are underway at New Mexico's ports of entry, including:

| | | |
|----------------------------------|--------------|-----------------------------|
| Antelope Wells Port Replacement | \$10 million | ARRA funding - completed |
| Columbus Port Commercial Bypass | 3 million | Federal funding - completed |
| Columbus Port Expansion (design) | 3 million | ARRA funding - completed |
| Santa Teresa Port Expansion | 10 million | ARRA funding - ongoing |

The U.S. General Services Administration intends to include construction of the Columbus port project in the FY12 federal budget, with an estimated cost of about \$50 million.

The Authority was and is intimately involved in all of the projects except Antelope Wells. Most importantly, the agency successfully lobbied for project funding. In addition, the agency was responsible for all of the early management of the Columbus bypass project, including negotiating necessary right of way acquisition. The agency is also coordinating critical complementary expansion of the Palomas port of entry and permitting of new roadways into Mexico for commercial vehicles. Among other tasks, the agency is reviewing the design plans for the state and assisting in land acquisition for the expansion.

The Authority chaired the public-private partnership with Dell and Foxconn that successfully lobbied the federal government for unexpended ARRA monies for Santa Teresa. The public-private partnership will be a model for future large scale port development on the entire southern border with Mexico.

A. Port Hours and Operations.

Operational hours at New Mexico ports often must be extended or modified to better accommodate rapidly increasing trade and traffic. The Authority conducts almost continuous surveys and studies to determine traffic flows and requirements. When justified, the agency petitions Customs and Border Protection, Mexican Customs, and Mexican Immigration for hours or operational changes. Often the decisions are made in Washington or Mexico City, but the agency has a very good success rate. In the past five years, the Border Authority has been able to have both non-commercial and commercial hours extended multiple times at Santa Teresa, as well as annual commercial extensions at Columbus during the Chile import season.

B. Santa Teresa Rail Bypass

El Paso and Cd. Juarez have been a bi-national rail hub for the Paso del Norte Region since the first tracks were laid in 1882. As the cities expanded and rail traffic increased, conflict with roadway traffic and urban congestion became more and more problematic. Rail relocation was first considered almost one hundred years ago. In the past few years, relocation has become even more critical because of border security and environmental issues such as rail-borne hazardous materials and air emissions.

In 2004, the City of El Paso and the three converging railroads--Burlington Northern Santa Fe, Union Pacific, and Ferromex—conducted preliminary studies to determine the best location to relocate the interchange of rail traffic between the United States and Mexico. Both studies agreed that Santa Teresa was by far the best location.

**STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

On September 30, 2009, at a meeting in Santa Teresa, a joint directive of the governors of New Mexico and Chihuahua, the mayors of Cd. Juarez and El Paso, and senior executives of the three railroads directed New Mexico to conduct studies to more conclusively determine project feasibility and to accomplish federal permitting for a new rail border crossing.

On October 2, 2012, at a meeting in Santa Teresa, a joint agreement between the land developers and the NMBA officially determined the recommended alignment of the international rail crossing from Mexico into the United States at Santa Teresa-San Jeronimo Industrial Park. It was also agreed to support and allow a dual customs clearance operation at the Foxconn facility in San Jeronimo. The NMBA is the lead agency for the new and regional Southbound-Northbound road.

The Authority is the lead state agency for the project because of its statutory responsibility for border crossings and because of the intense coordination with Mexican agencies that is necessary to accomplish the work.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, New Mexico Economic Development Department, Joseph M. Montoya Building, 1100 Saint Francis Drive, Santa Fe, New Mexico 87505-4147.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
STATEMENTS OF NET ASSETS
June 30, 2012

| | <u>PRIMARY GOVERNMENT Governmental Activities</u> |
|--|---|
| ASSETS | |
| Current assets: | |
| Investment in State General Fund Investment Pool | \$ 1,228,789 |
| Other receivables | <u>25</u> |
| Total current assets | 1,228,814 |
| Capital assets, net of depreciation | <u>668,504</u> |
| TOTAL ASSETS | <u>\$ 1,897,318</u> |
| LIABILITIES AND NET ASSETS | |
| LIABILITIES | |
| Accounts payable and other current liabilities | \$ 15,498 |
| Deferred revenue | 566,846 |
| Accrued payroll | 12,168 |
| Compensated absences payable | <u>16,675</u> |
| Total liabilities | <u>611,187</u> |
| NET ASSETS | |
| Invested in capital assets | 668,504 |
| Restricted | 244,671 |
| Unrestricted | <u>372,956</u> |
| Total net assets | <u>1,286,131</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,897,318</u> |

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

| <u>Functions/Programs</u> | <u>Expenses</u> |
|--------------------------------|-------------------|
| GOVERNMENTAL ACTIVITIES | |
| Border Development | \$ <u>428,195</u> |
| TOTAL ACTIVITIES | <u>\$ 428,195</u> |

| Charges for Services | Program Revenue | | Changes in Net Assets |
|---------------------------------------|--------------------------------------|----------------------------------|-------------------------|
| | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| \$ 172,408 | \$ - | \$ - | \$ (255,787) |
| <u>\$ 172,408</u> | <u>\$ -</u> | <u>\$ -</u> | (255,787) |
| GENERAL REVENUES (EXPENSES) | | | |
| Other revenue: | | | |
| State General Fund appropriations | | | 331,400 |
| Transfers in - Capital asset | | | <u>600,100</u> |
| | Total general revenues and transfers | | <u>931,500</u> |
| CHANGE IN NET ASSETS | | | 675,713 |
| NET ASSETS, BEGINNING | | | 572,395 |
| RESTATEMENT | | | <u>38,023</u> |
| NET ASSETS, BEGINNING RESTATED | | | <u>610,418</u> |
| NET ASSETS, ENDING | | | <u>\$ 1,286,131</u> |

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

| | Major Funds | | | | Total Governmental Funds |
|---|-----------------------------------|--|--|---|---|
| | 48000 General Fund | 02900 Hazmat Grant Fund | 03600 Capital Outlay Fund | 05600 Border Dev. Grant Fund | |
| ASSETS | | | | | |
| Cash on deposit | \$ 944,783 | \$ 4,078 | \$ 38,023 | \$ 241,905 | \$ 1,228,789 |
| Due from other funds | 38,023 | - | - | - | 38,023 |
| Other Receivables | - | 25 | - | - | 25 |
| TOTAL ASSETS | <u>\$ 982,806</u> | <u>\$ 4,103</u> | <u>\$ 38,023</u> | <u>\$ 241,905</u> | <u>\$ 1,266,837</u> |
| LIABILITIES | | | | | |
| Accounts payable and other current liabilities | \$ 14,567 | \$ - | \$ - | \$ 931 | \$ 15,498 |
| Deferred Revenue | 566,846 | - | - | - | 566,846 |
| Due to other funds | - | - | 38,023 | - | 38,023 |
| Accrued payroll | 11,762 | 406 | - | - | 12,168 |
| Total liabilities | 593,175 | 406 | 38,023 | 931 | 632,535 |
| FUND BALANCES | | | | | |
| Restricted: | | | | | |
| Hazmat Grant Activity | - | 3,697 | - | - | 3,697 |
| Border Dev. Grant Activity | - | - | - | 240,974 | 240,974 |
| Unassigned | 389,631 | - | - | - | 389,631 |
| Total fund balances | <u>389,631</u> | <u>3,697</u> | <u>-</u> | <u>240,974</u> | <u>634,302</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 982,806</u> | <u>\$ 4,103</u> | <u>\$ 38,023</u> | <u>\$ 241,905</u> | <u>\$ 1,266,837</u> |

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2012

| | | |
|--|----|---------|
| Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet) | \$ | 634,302 |
|--|----|---------|

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 fund:

| | | |
|--|--------|----------------------|
| Capital assets total acquisition value | | 689,911 |
| Total accumulated depreciation | | <u>(21,407)</u> |
| Total capital assets, net | | 668,504 |
| Compensated absences | | <u>(16,675)</u> |
| Net assets of governmental activities (Statement of Net Assets) | \$ | <u>1,286,131</u> |

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

| | Major Funds | | | | Total Governmental Funds |
|--|-----------------|-------------------------|---------------------------|------------------------------|--------------------------------|
| | General Fund | Hazmat Grant Fund | Capital Outlay Fund | Border Dev. Grant Fund | |
| REVENUES | | | | | |
| Other revenue | \$ 7 | \$ - | \$ - | \$ 172,401 | \$ 172,408 |
| Total revenues | 7 | - | - | 172,401 | 172,408 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Personal services | 226,253 | 1,061 | - | 43,546 | 270,860 |
| Operating costs | 50,780 | - | - | 6,799 | 57,579 |
| Contractual services | 77,757 | - | - | 6,000 | 83,757 |
| Total expenditures | 354,790 | 1,061 | - | 56,345 | 412,196 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (354,783) | (1,061) | - | 116,056 | (239,788) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| State General Fund appropriations | 253,800 | - | - | 77,600 | 331,400 |
| Total other financing sources | 253,800 | - | - | 77,600 | 331,400 |
| NET CHANGE IN FUND BALANCES | (100,983) | (1,061) | - | 193,656 | 91,612 |
| FUND BALANCES, BEGINNING OF YEAR | 452,591 | 4,758 | - | 47,318 | 504,667 |
| RESTATEMENT | 38,023 | - | - | - | 38,023 |
| FUND BALANCES, BEGINNING OF YEAR RESTATED | 490,614 | 4,758 | - | 47,318 | 542,690 |
| FUND BALANCES, END OF YEAR | \$ 389,631 | \$ 3,697 | \$ - | \$ 240,974 | \$ 634,302 |

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2012

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 91,612

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated lives and reported as depreciation expense. In the current period, these amounts were:

| | |
|--|----------|
| Capital asset additions related to building transfer from other State Agency | 600,100 |
| Depreciation expense | (16,602) |

| | |
|--|-----|
| Change in compensated absence balance not recorded in governmental funds | 603 |
|--|-----|

Change in net assets of governmental activities (Statement of Activities) **\$ 675,713**

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
 STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 YEAR ENDED JUNE 30, 2012

| | GENERAL FUND (48000) | | | |
|--|----------------------|------------|------------------------------|-------------------------------------|
| | Budgeted Amounts | | Actual | Variance From |
| | Original | Final | Amounts (Budgetary Basis) | Final Budget Positive (Negative) |
| REVENUES | | | | |
| State General Fund appropriation | \$ - | \$ 253,800 | \$ 253,800 | \$ - |
| Federal fund | - | 1,233,232 | - | (1,233,232) |
| Other state fund | 77,600 | 77,600 | 7 | (77,593) |
| Inter-agency transfers | - | - | - | - |
| Total revenues | 77,600 | 1,564,632 | 253,807 | (1,310,825) |
| EXPENDITURES | | | | |
| Personnel services | 55,500 | 1,408,232 | 226,253 | 1,181,979 |
| Contractual services | 6,000 | 62,200 | 50,780 | 11,420 |
| Operating costs | 16,100 | 94,200 | 77,757 | 16,443 |
| Total expenditures | 77,600 | 1,564,632 | 354,790 | \$ 1,209,842 |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES) | | | | |
| | \$ - | \$ - | (100,983) | |
| NET CHANGE IN FUND BALANCE (GAAP BASIS) | | | \$ (100,983) | |

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2012

| | HAZMAT GRANT (02900) | | | |
|--|----------------------|-------------|--|--|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance From Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| State General Fund Appropriation | \$ - | \$ - | \$ - | \$ - |
| Federal Fund | - | - | - | - |
| Other State Fund | - | - | - | - |
| Inter-Agency Transfers | - | - | - | - |
| Total revenues | - | - | - | - |
| EXPENDITURES | | | | |
| Personnel services | - | - | - | - |
| Contractual services | - | - | - | - |
| Operating costs | - | - | - | - |
| Other Financing Uses | - | - | - | - |
| Total expenditures | - | - | - | - |
| UNBUDGETED ITEMS | | | (1,061) | |
| EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES) | <u>\$ -</u> | <u>\$ -</u> | <u>(1,061)</u> | |
| NET CHANGE IN FUND BALANCE (GAAP BASIS) | | | <u>\$ (1,061)</u> | |

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2012

| | BORDER DEVELOPMENT GRANT (05600) | | | |
|---|----------------------------------|-------------|------------------------------|-------------------------------------|
| | Budgeted Amounts | | Actual | Variance From |
| | Original | Final | Amounts (Budgetary Basis) | Final Budget Positive (Negative) |
| REVENUES | | | | |
| State General Fund Appropriation | \$ 331,400 | \$ 77,600 | \$ 77,600 | \$ - |
| Federal Funds | - | - | - | - |
| Other | - | - | 172,401 | 172,401 |
| Inter-Agency Transfers | - | - | - | - |
| Total revenues | 331,400 | 77,600 | 250,001 | 172,401 |
| EXPENDITURES | | | | |
| Personnel services | 235,000 | 55,500 | 43,546 | 11,954 |
| Contractual services | 26,000 | 6,000 | 6,000 | - |
| Operating costs | 70,200 | 16,100 | 6,799 | 9,301 |
| Total expenditures | 331,200 | 77,600 | 56,345 | 21,255 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FUNDING SOURCES (USES) | \$ 200 | \$ - | 193,656 | |
| NET CHANGE IN FUND BALANCE (GAAP BASIS) | | | \$ 193,656 | |

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF REPORTING ENTITY

The New Mexico Border Authority (the Authority) is an autonomous executive branch state agency which was created by the New Mexico Legislature in 1991 for the purpose of:

- Encouraging and fostering development of the State, its cities and its counties by development to attract new industries and businesses, thereby creating new job opportunities in the State while resolving transportation and logistical problems that may arise as ports of entry develop.
- Actively promoting and assisting public and private sectors' infrastructure development to attract new industries and businesses, thereby creating new job opportunities in the State while resolving transportation and logistical problems that may arise as ports of entry develop.
- Designing, financing, equipping and operating port facilities necessary to ensure the timely, planned and efficient development of the border area between New Mexico and the Mexican state of Chihuahua.

Financing Powers

The Authority has been granted two methods for financing its projects, subject to the approval of the State Board of Finance: borrowing and issuing revenue bonds. The Authority has been granted specific powers and authorities respective to each instrument and is restricted in those powers for each instrument.

Administrative Attachment

The Border Development Act was amended effective July 1, 1996, to change the number of Directors to seven and provide that the Cabinet Secretary of the Economic Development Department be the Chairman of the Board of Directors for the Authority. The amended legislation provided that the Authority be administratively attached to the Economic Development Department. Through this administrative attachment, the Economic Development Department provides human resource services, accounting functions and information systems support. The Authority does not have component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Accounting

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

Financial Reporting Entity

The Authority is a component unit of the Executive Branch of the State of New Mexico and is legally separate and fiscally independent of other State agencies, has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The Authority is not included in any other governmental "reporting entity" as defined in Section 2100, "*Codification of Governmental Accounting and Financial Reporting Standards.*" Included within the reporting entity is the New Mexico Border Authority as described above. Other Executive Branch entities of government are excluded because they are established separately by statutes.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The reporting model focus is on either the Authority as a whole or major individual funds (within the fund financial statements). Both the government-wide and the fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. The Authority has only governmental type activities. In the government-wide Statement of Net Assets, the governmental column reflects a full accrual, economic resources basis, which incorporates long-term assets as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general governmental revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital gains. Program revenues must be directly associated with a function. The Authority included only one function (general government).

General revenues (General Fund appropriation, transfers in from other State agencies, Federal aid, etc.), normally cover the net cost (by function). Historically, the previous model did not summarize or present net cost by function or activity.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous accounting model.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The governmental 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 governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund-based financial statements into the governmental column on the governmental-wide presentation.

Measurement Focus and Basis of Accounting

The Government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide financial statements.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements rather than as a funding source. Amounts paid to reduce long-term debt of the Authority are reported as a reduction of the liability, rather than as an expenditure in the government-wide financial statements.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the Authority considers all revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unreimbursed state and federal grants associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues are considered to be measurable and available only when cash is received by the Authority.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to Governmental Accounting Standards Board Statement No. 33 (GASB 33), Accounting and Financial Reporting for Nonexchange Transactions, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Basis of Presentation

The financial transactions of the Authority are maintained on the basis of 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.

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The following funds are reported in the financial statements. The Authority has determined that all of the following are major funds:

General Fund. The General Fund is the general operating fund of the Authority and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily through appropriations from the State of New Mexico General Fund. The General Fund is a reverting fund (SHARE Fund 48000).

Special Revenue Funds. The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Sources of revenue are primarily special appropriations of State, Federal and local Governments and private grants and revenues generated by various activities of the Authority.

Hazmat Grant. This fund is used to account for the activities of a federal grant from the Federal Highway Administration (FHWA) and passed through the New Mexico Department of Transportation (DOT). The funds are appropriated under Section 330 of the FY 2002 DOT Appropriations Act (Public Law 107-87). The Authority agreed to administer the grant for the County of Dona Ana. All capital outlay items purchased under this grant are transferred to the County of Dona Ana for further administration per a Memorandum of Agreement dated February 6, 2003. This fund is non-reverting (SHARE Fund 02900).

Border Development Grant. This fund is used to account for the activities of a grant awarded to the County of Hidalgo pursuant to New Mexico Laws of 2004 Chapter 126, resulting in a joint powers agreement between the County of Hidalgo and the Authority to administer the grant. This fund is non-reverting (SHARE Fund 05600).

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Projects Fund.

Capital Outlay Fund. This fund is used to account for the activities relating to the appropriation by the State of New Mexico from the sale of severance tax bonds pursuant to Chapter 429 Laws of 2003, Chapter 110 Laws of 2003, Chapter 338 Laws of 2001, Chapter 23 Laws of 2000 Special Session, Chapter 18 Laws of 2000 Special Session, and Chapter 2 Laws of 1999 Special Session, collectively. (SHARE Fund 03600)

As a general rule, interfund transfers are eliminated in the government-wide financial statements except for receivables between government and business-type funds. The Authority eliminated all interfund transactions for the current fiscal year.

Budgets and Budgetary Accounting

The New Mexico State Legislature makes appropriations to the Authority. Legal compliance is monitored through the establishment of a budget (modified cash basis) and a financial control system, which permits a budget to actual comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level.

Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- No later than September 1, the Authority prepares a budget request by appropriation unit to be presented to the next Legislature.
- The appropriation request is submitted to the Department of Finance and the Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
- DFA makes recommendations and adjustments to the appropriation request, which become the Governor's proposal to the Legislature.
- The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
- Both the DFA and LFC-recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
- Budgetary control is exercised at the appropriation unit level of the Authority as a whole, and changes are approved by the DFA.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The Authority's budget for the fiscal year ended June 30, 2012 was amended in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the year. Individual amendments were not material in relation to the original budget.
- Single year appropriations lapse at the end of the year, except for goods and services received by the last day of the fiscal year which are reclassified as accounts payable.
- Budgets for the Governmental Funds are presented on a modified accrual basis. Current year encumbrances are included as expenditures, and payment of prior year encumbrances are excluded from current year budgeted expenditures. Budget expenditures record changes in prepaid expenses, accounts payable and accrued payroll. Budgetary comparisons presented for the Government Funds in this report are on the modified accrual basis, which conforms to accounting principles generally accepted in the United States of America as encumbrances are treated as accounts payable and expenditures. This procedure conforms to the Department of Finance and Administration and State requirements.
- The Schedule of Revenues and Expenditures, Modified Accrual Basis and Actual does not include funds with multiple year budgets. If they were included, the schedule would be misleading.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

Encumbrances

Encumbrances outstanding at year end do not represent U.S. GAAP expenditures unless they are reclassified as accounts payable. All governmental fund budgets are maintained on the budgetary basis, that is, they exclude accounts payable not recorded prior to the year-end accounting close.

Cash and Investments in State General Fund Investment Pool

The Authority has cash and investments in the State General Fund Investment Pool. All cash is deposited with and monitored by the State Treasurer.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State General Fund Investment Pool is not rated for credit risk.

For additional GASB 40 disclosure information related to the State General Fund Investment Pool, the reader should refer to the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2012.

Receivables

Receivables consist of amounts due from other state or federal governments. No allowance for doubtful accounts is established since all amounts are collected in the subsequent fiscal year.

Due To/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods provided and services rendered. Internal balances due to/from in the governmental funds are netted as part of the reconciliation to the government-wide columnar presentation, as such eliminating internal activity in the Statement of Activities.

Capital Assets

Capital assets are tangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. Capital assets are reported in the Statement of Net Assets at historical cost or estimated fair value, if donated. Capital assets are depreciated using the straight-line method over their estimated useful lives. Items with a cost of less than \$5,000 are expensed in the year of acquisition, per Section 12-6-10 NMSA 1978. Repairs and maintenance expenses are charged to operations when incurred and major betterments and replacements are capitalized. The major classifications of capital assets and their related depreciable lives are as follows:

| | |
|---------------------------|----------|
| Buildings | 40 years |
| Machinery and equipment | 5 years |
| Data processing equipment | 5 years |
| Furniture and fixtures | 4 years |

The Authority, includes software in the capital assets. The Authority does not develop, capitalize or depreciate internally developed software.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensated Absences

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon length of service and employee hire date. A maximum of 30 working days (240 hours) or such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess leave is lost.

When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours. Accumulated annual leave is not expected to be liquidated with expendable available financial resources and is reported in the general long-term debt group.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave that an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid up to 50% of accrued sick leave in excess of 600 up to 720 hours, but not to exceed 120 hours (net 60 hours can be paid). In the case of retiring employees, up to 200 net hours in excess of 600 hour minimum limit can be paid. All sick leave balances from 600 to 720 hours have been recorded at 50% of the employee's current hourly rate in the general long-term debt account group, including those amounts paid in July because no expendable financial resources are available as of the balance sheet date to liquidate the liability.

Non-Reverting Funds

All funds which are either appropriated to or earned by the Authority, and by law or statute, are not required to be reverted to the state treasury upon completion of a fiscal period or project are non-reverting funds. The Authority currently classifies the following revenues and sources as non-reverting:

- i) Non-General Fund sources must be reverted to the State General Fund upon completion of the project. (Section 6-5-10 NMSA 1978)
- ii) Grant funds from any governmental source, such as federal or state, direct or indirect, do not revert to the State General Fund unless specifically identified in the grant contract or appropriation law. Instead, any overdrawn grant funds must be reverted to the granting agency.

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale dated warrants and prior year reimbursements are also due to the State General Fund.

Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. The Authority recognizes revenue when earned. Expenditures are recognized when the related fund liability is incurred.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Revenues

Program revenues are revenues that (1) originate from the program or from parties other than the government's taxpayers or citizens as a whole, and (2) reduce the expenses of the function that has to be financed by general revenues. Revenues of this type can originate from a governmental source, but the proceeds are a charge for services or products produced by a government agency, where that agency is considered a vendor within the market place. Additionally, program revenues are fees charged by the government agency that are used to support a specific operation of that governmental unit.

Fund Balances and Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Assets are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use, or are legally restricted by enabling legislation.

Unrestricted Assets represent unrestricted liquid assets.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature and Executive Branches' intent to be used for specific purposes or, in some cases, by legislation. See Note 12 for additional information about fund balances.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management evaluated subsequent events through December 17, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012 but prior to December 17, 2012 that provided additional evidence about conditions that existed at June 30, 2012 have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2012.

NOTE 3 – GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Authority balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. Per Section 6-5-2.1(J) NMSA 1978, it is the DFA's responsibility to complete, on a monthly basis, a reconciliation with the balances and accounts

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – GENERAL FUND INVESTMENT POOL NOT RECONCILED (CONTINUED)

kept by the State Treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

The Authority reconciles its deposits and other activity with the State Treasurer to the General Ledger on a periodic basis to ensure proper posting.

NOTE 4 – INTEREST IN THE GENERAL FUND INVESTMENT POOL

All funds allotted to Authority are held by the New Mexico State Treasurer. Deposits are non-interest bearing. Money deposited by authority with the State Treasurer is pooled and invested by the State Treasurer.

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2012 the Department had the following invested in the General Fund Investment Pool:

General Fund Investment Pool \$1,228,789

Interest Rate Risk

The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk

The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2012</u> |
|-----------------------------------|--|-------------------|------------------|--|
| Capital assets: | | | | |
| Land | \$ 83,406 | \$ - | \$ - | \$ 83,406 |
| Depreciable assets: | | | | |
| Building | - | 600,100 | | 600,100 |
| Furniture, fixtures and equipment | <u>6,405</u> | <u>-</u> | <u>-</u> | <u>6,405</u> |
| Total capital assets | 89,811 | 600,100 | - | 689,911 |
| Accumulated depreciation: | | | | |
| Building | - | 15,002 | - | 15,002 |
| Furniture, fixtures and equipment | <u>4,805</u> | <u>1,600</u> | <u>-</u> | <u>6,405</u> |
| Total accumulated depreciation | <u>4,805</u> | <u>16,602</u> | <u>-</u> | <u>21,407</u> |
| Net capital assets | <u>\$ 85,006</u> | <u>\$ 583,498</u> | <u>\$ -</u> | <u>\$ 668,504</u> |

Land, other than the parcel transferred in FY 2010, and automobiles used by the Authority are not included in these financial statements, as they are included in the financial statements of the General Services Department.

Depreciation of \$16,602 was charged to the Border Development function.

NOTE 6 - COMPENSATED ABSENCES

A summary of the changes in compensated absences is as follows:

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Increase</u> | <u>(Decrease)</u> | <u>Balance</u> <u>June 30, 2012</u> | <u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u> |
|----------------------|--|-----------------|-------------------|--|--|
| Compensated absences | <u>\$ 17,278</u> | <u>\$ 8,303</u> | <u>\$ (8,906)</u> | <u>\$ 16,675</u> | <u>\$ 16,675</u> |

Funds from general operations have been used to liquidate the liability associated with compensated absences. New Mexico State Agencies do not budget, in the current year, funds to pay for any portion of the compensated absence liability at the end of the fiscal year.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – DEFERRED REVENUE

In July of 2010, the Authority received a Federal grant, "Economic Adjustment Assistance", for which a match of \$566,846 was required. The match requirement was met by the City of Sunland Park, New Mexico, which, in a City Council Special Session held on July 12, 2010, approved the contribution of the required amount for the Santa Teresa rail bypass feasibility study and permitting project. Even though the match requirement was met, the Authority did not start the project in FY 2012, and the match funds were therefore recorded as deferred revenue, attached to the Economic Adjustment Assistance grant.

NOTE 8 - RETIREMENT PLANS - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially 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 benefits, 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 8.92% of their gross salary. The Authority is required to contribute 15.09% of the gross covered 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, 2012, 2011 and 2010 were \$24,279, \$24,742 and \$45,535, respectively, equal to the amount of the required contribution for each year.

NOTE 9 - 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.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)

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 the 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 to the Retiree Health Care Authority at 4308 Carlisle 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.state.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. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan, the contribution rates will be:

| <u>Fiscal Year</u> | <u>Employer Contribution Rate</u> | <u>Employee Contribution Rate</u> |
|--------------------|-----------------------------------|-----------------------------------|
| FY13 | 2.000% | 1.000% |

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

**NOTE 9 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

The Authority's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$3,315, \$2,690 and \$3,386, respectively, which equal the required contributions for each year.

NOTE 10 - RISK MANAGEMENT

The Authority, as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the General Services Department of the State of New Mexico. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

- Liability and civil rights protection for claims made by others against the State of New Mexico;
- Coverage to protect the State of New Mexico's property and assets; and
- Fringe benefit coverage for State of New Mexico employees.

In the case of civil actions or claims against the Authority for financial damages, the Authority's certificate of insurance with Risk Management does not cover claims for back wages but does cover civil rights claims for other compensatory damages.

The Department had no significant reductions in insurance coverage from prior year. In the fiscal years ended June 30, 2012, 2011 and 2010, there were no settlements that exceeded insurance coverage.

NOTE 11 - DUE FROM/TO OTHER FUNDS

| Fund | Purpose | Due To | Due From |
|------------------------------|--|------------------|------------------|
| 03600 Capital Outlay Fund | Remaining balance on non-reverting capital improvement funds | <u>\$ 38,023</u> | |
| 48000 General Fund | Remaining balance on non-reverting capital improvement funds | | <u>\$ 38,023</u> |

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 – FUND BALANCE RESTRICTIONS

The Authority's fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2012 follows:

| | <u>General Fund</u> | <u>Major Special Revenue Funds</u> |
|-----------------------------------|---------------------|--|
| Fund balances: | | |
| Restricted for: | | |
| Hazmat Grant Activity | \$ - | \$ 3,697 |
| Border Development Grant Activity | | 240,974 |
| Unassigned | <u>389,631</u> | <u> </u> |
| Total fund balances | <u>\$ 389,631</u> | <u>\$ 242,794</u> |

NOTE 13 – RESTATEMENT

The Authority recorded the following restatements in the current year:

| | <u>General Fund</u> | <u>Government- Wide Net Assets</u> |
|--|---------------------|--|
| Fund balances: | | |
| Balance, beginning of year | \$ 452,959 | \$ 572,395 |
| Restatement – amount recorded in wrong fund and booked as a reversion in prior year | <u>38,023</u> | <u>38,023</u> |
| Total fund balances | <u>\$ 490,614</u> | <u>\$ 610,418</u> |

NOTE 14 – NEW PRONOUNCEMENTS

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* ("GASB 60"), improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. GASB 60 will be effective in fiscal year 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* ("GASB 61"), improves reporting for a governmental financial reporting entity by better defining the reporting entity and by addressing reporting issues that have arisen since the issuance of GASB 14 and 34.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 14 – NEW PRONOUNCEMENTS (CONTINUED)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("GASB 62"), does not change any current accounting or reporting standards, but makes them easier to find and understand. GASB 62 will be effective for fiscal year 2013.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO BORDER AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR CAPITAL PROJECTS FUND -
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2012

| | CAPITAL PROJECTS FUND (02800) | | | |
|---|------------------------------------|--------------------------------------|--|-----------------------------|
| | Life to Date Budgeted Amount | FY 2012 Amount Budgetary Basis | Life to Date Actual Amount (Budgetary Basis) | Variance Over (Under) |
| REVENUES | | | | |
| Capital Outlay Appropriations | \$ - | \$ - | \$ - | \$ - |
| Severance tax Bonds Proceeds | - | - | - | - |
| Budgeted Fund Balance | - | - | - | - |
| TOTAL REVENUES | <u>\$ -</u> | - | <u>\$ -</u> | <u>\$ -</u> |
| EXPENDITURES | | | | |
| Personal services and benefits | \$ - | - | \$ - | \$ - |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Other financing uses | - | - | - | - |
| TOTAL EXPENDITURES | <u>\$ -</u> | - | <u>\$ -</u> | <u>\$ -</u> |
| EXCESS OF REVENUE OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES) | | - | | |
| REVERSIONS TO STATE GENERAL FUND (NOT BUDGETED) | | <u>-</u> | | |
| NET CHANGE IN FUND BALANCE (GAAP BASIS) | | <u>\$ -</u> | | |

STATE OF NEW MEXICO BORDER AUTHORITY
SCHEDULE 1 - SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
June 30, 2012

| Fund Name | Fund Number | Fund Type | Depository | Balance per Bank |
|--|-------------|-----------------|--------------------|---------------------|
| Cash with State General Fund (with SHARE fund numbers): | | | | |
| General Fund | 48000 | Operating | State General Fund | \$ 944,783 |
| Hazmat Grant | 02900 | Special revenue | State General Fund | 4,078 |
| Capital Outlay Fund | 03600 | Capital project | State General Fund | 38,023 |
| Border Dev. Grant Fund | 05600 | Special revenue | State General Fund | <u>241,905</u> |
| Total Governmental with State General Fund | | | | <u>\$ 1,228,789</u> |

**STATE OF NEW MEXICO BORDER AUTHORITY
SCHEDULE 2 - SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2012**

| | <u>Accounts at State General Investment Fund</u> | <u>Total</u> |
|---------------------------------|--|--------------|
| Total amount of deposit | \$ 1,228,789 | \$ 1,228,789 |
| Less FDIC | - | - |
| Total uninsured public money | 1,228,789 | 1,228,789 |
| 50% collateral | 614,395 | 614,395 |
| State Agency Collateral Listing | A | A |
| Total pledged | - | - |
| Over (under) pledged | A | A |

A: This amount is held at the Office of the State Treasurer and is detailed in the report of the Office of the State Treasurer, whose audit is covered by a separate report. Detail specific for the collateral is commingled by the Office of the State Treasurer, and it monitors the adequacy of the funds pledged for collateral to ensure the full coverage as required by the Laws of the State of New Mexico and related statutes.

Custodian: Federal Home Loan Bank, Dallas
Name Security in: New Mexico General Investment Fund

The deposits are fully secured since they are in the name of the New Mexico State General Investment Fund and are held at a separate depository institution that is not affiliated with the depository institution.



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**Independent Auditors' 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
State of New Mexico, New Mexico Border Authority
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, each major fund, and the budgetary comparisons of the general fund and major special revenue funds and the capital projects fund budgetary comparison presented as supplemental information of the New Mexico Border Authority (Authority), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. 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 the Authority 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 audit 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 as 2012-1 to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978 which are described in the accompanying schedule of findings and responses as 2011-4 and 2011-5.

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 the Board of Directors, management, the Office of the State Auditor, the New Mexico Department of Finance and Administration, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 17, 2012

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012

Section I – Summary of Auditor’s Results

1. The auditor’s report expresses an unqualified opinion on the basic financial statements of the State of New Mexico, New Mexico Border Authority (Authority).
2. No significant deficiencies and one material weaknesses was disclosed during the audit of the financial statements. However, one compliance and one control deficiency were noted.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012

Section II – Financial Statement Findings

Finding 2012-01 – Amounts recorded in incorrect fund (Material Weakness)

Condition: During our audit testwork we noted that management had previously recorded revenue in the capital projects fund (03600) that was not related to capital projects and belonged in the general fund (48000).

Criteria: Per GAAP capital projects funds are to account for financial resources to be used for the acquisition or construction of major capital facilities.

Cause: **Management** oversight at the time the revenue was received.

Effect: Fund balance was overstated in the general fund.

Recommendation: We recommend that the Authority understand the purpose of funds received and record them accordingly.

Management's Response: The Authority understands the purpose of funds received. The Economic Development Department has hired a new CFO. This CFO is extremely cognizant of the importance of recording balances in the correct funds and accounts. The new CFO has initiated a monthly review of both the income statement and balance sheet. Errors like this should be caught in the future.

Section III – Other

Finding 2011-4 Untimely Deposits of Cash (Compliance)

Condition: During the Internal Controls over Cash Receipts testwork, we noted 18 (out of 22 tested) instances of noncompliance with the New Mexico State Auditor Requirement of timely deposits of cash received. The total amount of cash not deposited in a timely manner was \$8,906.

Criteria: Per Manual of Model Accounting Practices (MAPs), section FIN 2.3, all state agencies shall deposit cash within 24 hours of receipt.

Cause: Remote location of the unit that receives cash as related to the depository institution.

Effect: The Authority is not in compliance with the requirements specified at section FIN 2.3 of MAPs. The entity exposes itself to a possibility of asset misappropriation.

Recommendation: We recommend management implements necessary procedures to deposit all cash received within 24 hours of receipt.

Management's Response: The Authority understands the importance of depositing cash within 24 hours of receipt. However, there may be circumstances beyond their control that requires the entire staff to be out of the office at the same time which leaves no one to make the deposit. These instances are rare.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012

Section III – Other (continued)

Finding 2011-5 Travel Approval (Control Deficiency)

Condition: During the Internal Controls over Per Diem audit test work, we noted two instances, out of eight items tested, of no formal travel authorization for the total amount of \$909, and one instance, out of eight items tested, of incorrect documentation for the per diem travel for the invoice totaled \$282.

Criteria: Per Manual of Model Accounting Practices (MAPs), FIN 5 requires the entity to have internal controls in place surrounding cash disbursements. All vouchers must be certified as true and correct by the officer or employee designated to make payments, as well as someone other than the individual seeking reimbursement. All documentation should be properly maintained.

Cause: Lack or failure of controls over proper approval process and lack of proper segregation of duties. Additionally, the Authority did not keep the appropriate accounting records to support the disbursements.

Effect: The Authority is not in compliance with Section FIN 5 of MAPs. In addition, lack of segregation of duties can lead to erroneous or fraudulent requests being submitted by the employees of the Authority.

Recommendation: We recommend management implements proper procedures that would ensure that all travel requests and reimbursements are reviewed and approved by someone other than the preparer and all supporting documentation is properly maintained.

Management's Response: The Authority has policies in place to support disbursements. All travel requests and reimbursements will have proper approvals and supporting documentation will be attached.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2012

Section I – Financial Statement Findings

Finding 2011-1 Maintenance of Capital Assets (Significant Deficiency) – Cleared

The cleared finding pertained to lack of capital asset documentation and depreciation calculations.

Finding 2011-2 Capital Assets Inventory (Significant Deficiency) – Cleared

The cleared finding pertained to a lack of an annual physical capital assets inventory count.

Finding 2011-3 Untimely Reversion to State General Fund (Compliance) – Cleared

This cleared finding pertained to a reversion which was not reverted before the statutory deadline.

Finding 2011-4 Untimely Deposits of Cash (Compliance) – Repeated and modified

This repeated and modified finding pertained to receipts that were not deposited in the bank within the state mandated time (24 hours).

Finding 2011-5 Travel Approval (Control Deficiency) – Repeated and Modified

This repeated and modified finding pertained to lack of authorization and documentation for travel reimbursements.

Finding 2011-6 Late Filing of Audit Report – Cleared

This cleared finding pertained to the date the audit report was received by the State Auditor. It was received after the statutory deadline.

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY
EXIT CONFERENCE
Year Ended June 30, 2012

An exit conference was held with the Authority on December 13, 2012, at New Mexico Border Authority's offices in Albuquerque, New Mexico. In attendance were:

STATE OF NEW MEXICO, NEW MEXICO BORDER AUTHORITY

Barbara Brazil, Deputy Cabinet Secretary
Jennifer Moseley, ASD Director/CFO
Georgette Chavez, Audit and Account Bureau Chief

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Partner
Jennifer White, CPA

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditors' Report.