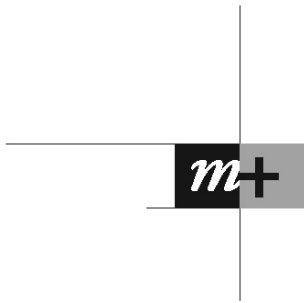


**NEW MEXICO
SPACEPORT AUTHORITY**

**Financial Statements
for the Year Ended
June 30, 2010,
and Independent
Auditors' Report**



Official Roster 1

Independent Auditors’ Report..... 2 – 3

Management’s Discussion and Analysis..... 4 – 11

Financial Statements:

Statement of Net Assets..... 13 – 14

Statement of Activities 15

Fund Financial Statements:

Balance Sheet - Governmental Funds..... 16

Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Assets 17

Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds..... 18

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances –
Governmental Funds to the Statement of Activities 19 – 20

Statement of Revenues and Expenditures – Major Governmental
Fund - Budget and Actual (Modified Accrual Basis) 21

Notes to the Financial Statements..... 22 – 41

Supplementary Information:

Statement of Revenues and Expenditures – Major Governmental
Fund - Budget and Actual (Modified Accrual Basis) 43

Supplemental Schedule of Severance Tax Appropriations 44 – 45

Supplemental Schedule of Cash Accounts Including Investments 46 – 47

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*..... 48 – 49

Schedule of Findings and Responses 50 – 54

Summary Schedule of Prior Year Audit Findings 55

Exit Conference 56

NEW MEXICO SPACEPORT AUTHORITY

Official Roster

Year Ended June 30, 2010

Board Members – Space Commission

Title

Rick Homans	Executive Director (May 2010 – present)
Steve Landeene	Executive Director (Jan. 2009 – April 2010)
Daniella Glick	Executive Director (through Jan. 2009)
Fred Mondragon	Chairman
Diane Denish	(ex officio) Lt. Governor
Toots Green	Member
D. Kent Evens	Member
Jim Manatt	Member
Gary Whitehead	Member
Benjamin E. Woods	Member
Casey Luna	Member

Administrative Services

Lisa Ortiz	ASD Director
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INDEPENDENT AUDITORS' REPORT

Board of Directors
New Mexico Spaceport Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities and each major fund and the budgetary comparisons for the general fund and major special revenue fund of the New Mexico Spaceport Authority (Authority), as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Authority's major capital projects fund and budgetary comparisons for the major debt service fund. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 government activities, each major fund, the budgetary comparisons for the general fund, major debt service fund of the Department as of June 30, 2010, and the changes in financial position of those activities and funds. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2010, or the respective changes in the financial position thereof, in accordance with accounting principles generally accepted in the United States of America.



Board of Directors
New Mexico Spaceport Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2010, 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 debt service fund for the year then ended in accordance 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 14, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis presented on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements. The additional schedules listed as "supplementary 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



December 14, 2010

NEW MEXICO SPACEPORT AUTHORITY

Management's Discussion and Analysis Year Ended June 30, 2010

The New Mexico Spaceport Authority's (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, 2010.

Authority Overview

The Authority is administratively attached to one of 16 cabinet level departments within the executive branch of the New Mexico State Government (New Mexico Economic Development Department (NMEDD)). Founded by state statute in 2005 [Laws of 2005, Chapter 128, "Spaceport Development Act"], the Authority's mission is to create programs to expand high technology economic opportunities within New Mexico, and create avenues of communication among federal government agencies, the space industry, users of space launch services and academia concerning space business. The Authority began its operations as a separate State Government Agency on July 1, 2006.

To achieve our mission, the Authority provides the statutory framework that will enable the State to design, finance, construct, equip and operate spaceport facilities necessary to ensure the timely, planned and efficient development of a southwest regional spaceport.

Financial Highlights

- In the fiscal year ended June 30, 2010, the total assets of the Authority exceeded total liabilities by \$34,175,455.
- The Authority purchased \$54,337,896 in total capital assets greater than \$5,000. NMEDD incurred capital expenditures on behalf of the Authority in the amount of \$1,506,236. These were financed through capital appropriations to NMEDD for Spaceport construction and are included as additions in Note 4 of this report.
- Of the \$38,058,801 in total current assets, 69% was in the form of cash.
- The total cost of Authority programs was \$3,558,900, whereas the total Authority general revenue was \$22,186,548.

NEW MEXICO SPACEPORT AUTHORITY

Management's Discussion and Analysis - continued Year Ended June 30, 2010

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 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 Spaceport 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 fund and debt service 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.

NEW MEXICO SPACEPORT AUTHORITY

Management's Discussion and Analysis - continued Year Ended June 30, 2010

Overview of the Financial Statements - continued

Fund Financial Statements – continued

Governmental Funds - continued

The Authority currently maintains two 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 (SHARE Fund 87100) and the Regional Spaceport District Fund (SHARE Fund 10570).

The Authority adopts an annual appropriated budget for its General Fund and the Regional Spaceport District Fund. The basic governmental fund financial statements can be found on pages 16 and 18 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 \$34,175,455 at the close of the 2010 fiscal year.

At the end of the 2010 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 \$18,627,648.

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 2010 fiscal year, the Authority's governmental funds reported combined ending fund balances of \$10,263,964, an increase of \$8,833,563 in comparison with the prior year. The majority of this amount is derived from severance tax bond proceeds 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 2010 fiscal year, unreserved fund balance of the general fund was (\$15,851,703).

During the 2010 fiscal year, the fund balance of the Authority's general fund decreased by \$15,851,703.

NEW MEXICO SPACEPORT AUTHORITY

**Management's Discussion and Analysis - continued
Year Ended June 30, 2010**

Financial Analysis of the Authority as a Whole

Net Assets

Table A-1 summarizes the Authority's net assets as of June 30, 2010. Net assets for Governmental Activities were \$34,175,455.

**Table A-1
The Authority's Net Assets**

AS OF JUNE 30,	2010	Restated 2009
Governmental Activities:		
Assets:		
Current and other assets	\$ 38,058,801	2,253,710
Capital and non-current assets	<u>70,743,365</u>	<u>14,157,700</u>
Total Assets	\$ <u>108,802,166</u>	<u>16,411,410</u>
Liabilities:		
Current Liabilities	\$ 20,783,003	863,603
Non-current liabilities	<u>53,843,708</u>	<u>-</u>
Total Liabilities	\$ <u>74,626,711</u>	<u>863,603</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 16,209,337	14,157,700
Restricted – capital projects and debt service	17,997,643	-
Unrestricted, subsequent year's expenditure	<u>(31,525)</u>	<u>1,390,107</u>
Total Net Assets	\$ <u>34,175,455</u>	<u>15,547,807</u>

Changes in Net Asset

The Authority's change in assets for fiscal year 2010 was an increase of \$18,627,648 (Statement of Activities). Approximately five percent of the Authority's revenue comes from State General Fund Appropriations; the remaining funds are from severance tax bond proceeds and gross receipts taxes.

NEW MEXICO SPACEPORT AUTHORITY

**Management's Discussion and Analysis - continued
Year Ended June 30, 2010**

Financial Analysis of the Authority as a Whole - continued

Changes in Net Asset - continued

**Table A-2
Changes in the Authority's Net Assets**

YEARS ENDED JUNE 30,	2010	2009
Governmental Activities:		
General Revenues:		
State General Fund appropriations (net)	\$ 1,171,800	789,400
Gross Receipts Tax	6,447,286	1,430,401
Severance tax bond proceeds	13,013,327	2,200,028
Other revenue	1,506,236	-
Interest revenue	<u>47,899</u>	<u>-</u>
Total General Revenues	22,186,548	4,419,829
Expenses:		
Spaceport development	<u>3,558,900</u>	<u>1,555,700</u>
Total Expenses	<u>3,558,900</u>	<u>1,555,700</u>
Increase (Decrease) in Net Assets	18,627,648	2,864,129
Net Assets, Beginning of Year	<u>15,547,807</u>	<u>12,683,678</u>
Net Assets, End of Year	\$ <u>34,175,455</u>	<u>15,547,807</u>

Financial Analysis of the Department's Funds

Capital Assets and Debt Administration

The Authority had \$69,994,337 invested in capital assets for the year ended June 30, 2010. The majority being construction in process.

The Authority issued \$55,810,000 in bonds for the year ended June 30, 2010 to finance construction.

Original and Final Budget

Significant variations between original and final budgeted amounts are seen for the General Fund due to Severance Tax Bond Appropriations received during the year to finance construction.

NEW MEXICO SPACEPORT AUTHORITY

Management's Discussion and Analysis - continued Year Ended June 30, 2010

Original and Final Budget - continued

Significant variations between original and final budgeted amounts are seen for the Regional Spaceport District Fund as there was not an original budget established. Significant construction makes up the majority of the activity in this fund.

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

2010 Highlights:

- Space Flight Informed Consent Legislation Passage
- Contract awards for Apron, ARFF, Fencing
- Revised White Sands Missile Range MOU signed December 13
- Spaceport Tours RFP contract awarded
- Southern Road MOU signed with Doña Ana and Sierra counties
- Second round of GRT bond issuance
- Bids anticipated for System Integration/Communications package
- Operational Development and Readiness planning begun
- VG WhiteKnightTwo-SpaceShipTwo first crewed captive-carry flight July 15
- VG SpaceShipTwo first glide test October 10
- RFIs released for Technical/General/Protective and Visitor services
- Spaceport America Runway Dedication October 22
- Project Management RFP awarded
- RFP release for Technical/General/Protective services November 15
- Regional Economic Development/Supply Chain effort begun
- FAA/AST License Amendment process begun

NEW MEXICO SPACEPORT AUTHORITY

Management's Discussion and Analysis - continued Year Ended June 30, 2010

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

Through the fall of 2009 and first half of 2010, thirteen different large contracts have been awarded on various components of the Spaceport America infrastructure, and New Mexico contractors have been successful in bidding the project. FNF New Mexico is the enabling works contractor who will prepare the site for all the contractors and deal with security and dust control throughout the duration of the project. David Montoya Construction won the airfield and apron contracts. The water, waste water and fuel storage contracts were awarded to AUI, Smithco, and FNF New Mexico. The electrical infrastructure package was awarded to McDade Woodcock. CMC Construction and Valley Fence won the internal roadways package and fencing package, respectively. The Terminal Hangar Facility bid went to Summit West, and the Aircraft Rescue Firefighting facility was won by Bateman Hall. Still left to be bid from the original construction phase is the systems integration and communications bid package, which is slated for release in fall 2010. Additionally, NMSA has entered into a contract with Sierra Electric Cooperative to design and construct the 10MW substation and 6 miles of distribution line to bring power to the Spaceport America site. This offsite power is expected to be complete by early 2011, in time for pre-operational facilities commissioning.

NMSA committed to supporting two welcome centers, one in Hatch and one in Sierra County. These "off-site" welcome centers will be the gateway and transportation hub for visitors wishing to visit Spaceport America, and provide information on the local community activities, the history and heritage of New Mexico and the El Camino Real, and the reinvention of New Mexico's leadership in space. All visitors to the spaceport site must flow through the welcome center for environmental sensitivity and security reasons.

Today, Russia is providing the lift to space for the United States. Billions of U.S. tax dollars are pouring out of the country to fund Russian activity. The need is great for the U.S. to have its own capability.

Money is flowing into space development from the likes of Virgin Galactic, Space X, Armadillo Aerospace, XCOR, Blue Origin, etc. The traditional space companies such as Lockheed Martin, Boeing, Orbital Sciences, and Aerojet are investing in the commercial space opportunity as the next big market and are looking to position themselves to play in this new sector.

Spaceport America plans to market the collective capability of New Mexico to demonstrate its leadership in Space: past, present and future. The local Air Force and Army installations, such as White Sands Missile Range, Holloman Air Force Base, and the Air Force Research Laboratory, all estimate that at least 80% of the federal funding they receive in New Mexico is sent out of state due to New Mexico not having the industrial and research base to perform the work. The value proposition will be developed to attract companies from research and development, technology, vehicle developers, component suppliers, to operators to support both Spaceport America as well as the other entities within New Mexico.

The Virgin Galactic lease and its component user fees represent a potential value of between \$150M and \$250M. Virgin Galactic is expected to employ between 75-150 employees at the Spaceport. NMSA will employ 25-50 people to run Spaceport America. The indirect jobs will be far greater to support the supply chain, tourism and educational components.

NEW MEXICO SPACEPORT AUTHORITY

Management's Discussion and Analysis - continued Year Ended June 30, 2010

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

Spaceport America is at a critical juncture of beginning the transition from construction to a pre-operational facilities commissioning mode. Extensive operational development and readiness planning is now underway at NMSA to ensure that the operational needs of the site are met before the onset of commercial launch activity in 2012. This entails development of concepts of operation, business plans, development master plans, and operational plans for general, protective, technical and visitor services. RFPs and contracts will be issued for a largely contracted workforce starting in late 2010 for a ramp up of staffing over a two year period.

The Spaceport will be capable of accommodating the activities of both vertical and horizontal launch space vehicles, serving as the base for pre-flight and post-flight activities and providing a center for interested spectators. The goal of the Authority is to achieve commercial vertical and horizontal launch programs, training, research and development, testing, entertainment, tourism, education and community relations as well as bringing related industry to New Mexico for economic growth.

Industry attraction has already begun with Spaceport having signed MOUs with UP Aerospace, Micro Gravity Enterprises, Lockheed Martin and Payload Specialties. UP Aerospace will be relocating to Sierra County from Colorado. Substantive agreements are pending with several other leading aerospace companies and are planned for announcement during FY2011.

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.

FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

	PRIMARY GOVERNMENT Governmental Activities Total
ASSETS:	
Cash and cash equivalents	\$ 23,198,402
Investment in State General Fund Investment Pool	2,917,265
Due from other state agencies	11,898,699
Bond Issue Cost - current	44,061
Prepaid items	<u>374</u>
TOTAL CURRENT ASSETS	38,058,801
NON-CURRENT ASSETS:	
Capital Assets	70,007,698
Less accumulated depreciation	<u>(13,361)</u>
Net Capital Assets	69,994,337
Bond Issue Cost - Non-Current	<u>749,028</u>
TOTAL NON-CURRENT ASSETS	<u>70,743,365</u>
TOTAL ASSETS	\$ <u><u>108,802,166</u></u>

NEW MEXICO SPACEPORT AUTHORITY

Statement of Net Assets

	PRIMARY GOVERNMENT Governmental Activities Total
LIABILITIES:	
Accounts payable	\$ 6,360,910
Accrued payroll and other liabilities	39,984
Due to other state agencies	140,325
Cash Overdraft	5,368,761
Other	637
Deferred Revenues	6,698,908
Bond Premium	115,512
Compensated absences payable due within one year	27,983
Interest payable	124,983
Current portion of long-term obligations	<u>1,905,000</u>
TOTAL CURRENT LIABILITIES	20,783,003
Long-term obligations	
Non-current portion of long-term obligations	51,880,000
Non-current Bond Premium	<u>1,963,708</u>
TOTAL LIABILITIES	74,626,711
NET ASSETS:	
Invested in capital assets, net of related debt	16,209,337
Unrestricted - subsequent years' expenditure	(31,525)
Restricted - capital projects and debt service	<u>17,997,643</u>
TOTAL NET ASSETS	<u>34,175,455</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>108,802,166</u>

NEW MEXICO SPACEPORT AUTHORITY

Statement of Activities

YEAR ENDED JUNE 30, 2010

		PRIMARY GOVERNMENT
		Governmental Activities Total
		<u> </u>
PROGRAM EXPENSES:		
Spaceport development	\$	<u>3,558,900</u>
TOTAL EXPENSES		<u>3,558,900</u>
PROGRAM REVENUE		<u>-</u>
NET PROGRAM (EXPENSE) REVENUE		(3,558,900)
GENERAL REVENUES:		
Transfers - State General Fund appropriation, net of reversions		1,171,800
Other revenue		1,506,236
Interest Revenue		47,899
Gross Receipts Tax		6,447,286
Severance Tax Bond Proceeds		<u>13,013,327</u>
TOTAL GENERAL REVENUES		<u>22,186,548</u>
CHANGE IN NET ASSETS		18,627,648
NET ASSETS, July 1, 2009		<u>15,547,807</u>
NET ASSETS, June 30, 2010	\$	<u><u>34,175,455</u></u>

NEW MEXICO SPACEPORT AUTHORITY

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2010

	Major Funds		
	General Fund	Regional Spaceport District Fund	Total Governmental Funds
ASSETS:			
Investment in State General Fund			
Investment Pool	\$ -	2,917,265	2,917,265
Other Cash - Held at Trustee	-	23,198,402	23,198,402
Prepaid expenses	374	-	374
Due from other state agencies	<u>11,898,699</u>	<u>-</u>	<u>11,898,699</u>
TOTAL ASSETS	\$ <u>11,899,073</u>	<u>26,115,667</u>	<u>38,014,740</u>
LIABILITIES:			
Accounts payable	\$ 6,360,910	-	6,360,910
Accrued payroll	39,984	-	39,984
Due to Other State Agencies	140,325	-	140,325
Cash Overdraft	5,368,761	-	5,368,761
Deferred Revenue	15,840,159	-	15,840,159
Other	<u>637</u>	<u>-</u>	<u>637</u>
TOTAL LIABILITIES	27,750,776	-	27,750,776
FUND BALANCES:			
Reserved for debt service	-	2,917,265	2,917,265
Unreserved	(11,719)	-	(11,719)
Reserved for capital projects	<u>(15,839,984)</u>	<u>23,198,402</u>	<u>7,358,418</u>
TOTAL FUND BALANCES	<u>(15,851,703)</u>	<u>26,115,667</u>	<u>10,263,964</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>11,899,073</u>	<u>26,115,667</u>	<u>38,014,740</u>

NEW MEXICO SPACEPORT AUTHORITY

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets**

AS OF JUNE 30, 2010

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$	10,263,964
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

The cost of capital assets is		70,007,698
Accumulated depreciation is		<u>(13,361)</u>
Total capital assets		69,994,337

Amount defined at the fund level not received during period of availability (modified accrual basis), but recognized as revenue at government-wide level (full accrual)		9,141,251
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Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term and other liabilities at year end consist of:

Bonds payable		(53,785,000)
Debt Issuance Cost (Related to Bond Issuance)		793,089
Bond Premium (related to bond issuance), net of \$155,512 amortization		(2,079,220)
Accrued interest payable related to Bonds		(124,983)

Compensated absences payable		<u>(27,983)</u>
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Net assets of governmental activities (Statement of Net Assets)	\$	<u><u>34,175,455</u></u>
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NEW MEXICO SPACEPORT AUTHORITY

**Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds**

YEAR ENDED JUNE 30, 2010

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Regional Spaceport District Fund</u>	
REVENUES:			
Gross Receipts Tax	\$ -	6,447,286	6,447,286
Interest on loans	-	47,899	47,899
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	-	6,495,185	6,495,185
EXPENDITURES:			
Current:			
Personal services and benefits	681,442	-	681,442
Contractual services	454,105	-	454,105
Other	170,830	-	170,830
Capital Outlay	19,589,202	34,748,694	54,337,896
Debt Service:			
Principal	-	2,025,000	2,025,000
Interest and other charges	-	2,203,807	2,203,807
Debt issuance costs	<u>-</u>	<u>837,150</u>	<u>837,150</u>
TOTAL EXPENDITURES	<u>20,895,579</u>	<u>39,814,651</u>	<u>60,710,230</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(20,895,579)	(33,319,466)	(54,215,045)
OTHER FINANCING SOURCES (USES):			
Reversions to State General Fund	(73,700)	-	(73,700)
Transfers Out	-	-	-
Transfers In - State General Fund Appropriation	1,245,500	-	1,245,500
Bond Proceeds - Debt Issuance, net	-	58,004,732	58,004,732
Bond Proceeds - Severance Tax Bond	<u>3,872,076</u>	<u>-</u>	<u>3,872,076</u>
NET OTHER FINANCING SOURCES (USES)	<u>5,043,876</u>	<u>58,004,732</u>	<u>63,048,608</u>
NET CHANGE IN FUND BALANCES	(15,851,703)	24,685,266	8,833,563
FUND BALANCES, July 1, 2009	<u>-</u>	<u>1,430,401</u>	<u>1,430,401</u>
FUND BALANCES, June 30, 2010	\$ <u><u>(15,851,703)</u></u>	<u><u>26,115,667</u></u>	<u><u>10,263,964</u></u>

NEW MEXICO SPACEPORT AUTHORITY

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities**

YEAR ENDED JUNE 30, 2010

**Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances)** **\$ 8,833,563**

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

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) - are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The net decrease in the liabilities for the year was 12,311

Repayment of bond principal is an expenditure in the Governmental Funds, but it reduces long-term liabilities in the Statement of Net Assets

Bond Proceeds, net of Premium	(58,004,732)
Principal Payments	2,025,000

Bond issuance costs recorded in the governmental funds as other costs, recorded as an asset in the Statement of Net Assets and recorded as an expense in the Statement of Activities	793,089
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Amortization of bond premiums recorded as a reduction of interest expense in the Statement of Activities.	115,512
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay	54,337,896
Depreciation expense	<u>(7,495)</u>

Excess of depreciation expense over capital outlay	54,330,401
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NEW MEXICO SPACEPORT AUTHORITY

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities - continued

YEAR ENDED JUNE 30, 2010

Governmental Funds report liabilities when they mature. Accrued interest payable is reported as an expense in the Statement of Activities and a liability in the Statement of Net Assets.	\$ (124,983)
Other Revenues, transfer of capital assets from New Mexico Economic Development Department (NMEDD) financed through severance tax appropriations to NMEDD for Spaceport construction at government-wide level (Note 12)	1,506,236
Amounts recorded as deferred revenue in the governmental funds that were not received within the period of availability - 60 days after year end; recorded as revenue in the Statement of Activities:	<u>9,141,251</u>
Change in net assets of governmental activities (Statement of Activities)	\$ <u>18,627,648</u>

NEW MEXICO SPACEPORT AUTHORITY

Statement of Revenues and Expenditures -
Major Governmental Fund -
Budget and Actual (Modified Accrual Basis)

YEAR ENDED JUNE 30, 2010

GENERAL FUND - OPERATING FUND 87100				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund appropriation	\$ 1,245,500	1,245,500	1,245,500	-
Other State Funds	-	-	3,872,076	3,872,076
Fund Balance Rebudgeted	-	<u>20,093</u>	-	<u>(20,093)</u>
TOTAL REVENUES	<u>1,245,500</u>	<u>1,265,593</u>	5,117,576	<u>3,851,983</u>
EXPENDITURES:				
Current:				
Personal services and benefits	\$ 789,900	789,900	681,442	108,458
Contractual services	208,400	2,228,493	19,869,408	(17,640,915)
Other	247,200	65,247,200	170,830	65,076,370
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	\$ <u>1,245,500</u>	<u>68,265,593</u>	<u>20,721,680</u>	<u>47,543,913</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER FINANCING SOURCES			(15,604,104)	
UNBUDGETED ITEMS:				
TIMING OF ACCOUNTS PAYABLE			(173,899)	
REVERSION			<u>(73,700)</u>	
NET CHANGE IN FUND BALANCE			\$ <u>(15,851,703)</u>	

NATURE OF ORGANIZATION

Reporting Entity

The reporting entity is the New Mexico Spaceport Authority (Authority). The Authority was established by the Laws of 2005, Chapter 128, “New Mexico Spaceport Development Act” (Act). The purpose of the Authority is to:

- Encourage and foster development of the State and its cities and counties by developing spaceport facilities in New Mexico, and to actively promote and assist public and private sector infrastructure development to attract new industries and businesses, thereby creating new opportunities in the State.
- Create the statutory framework that will enable the State to design, finance, construct, equip and operate spaceport facilities necessary to ensure the timely, planned and efficient development of a southwest regional spaceport.
- Promote educational involvement in spaceport activities and education, and training of the workforce to develop the skills needed for spaceport operations.

The authority shall consist of seven voting and two nonvoting members, six of whom shall be appointed by the Governor with the consent of the senate; provided that one of the appointed members shall be a resident of Sierra County. No more than three appointed members shall belong to the same political party. The seventh member shall be the secretary of Economic Development or the Secretary's designee. The Lieutenant Governor shall serve as a nonvoting ex-officio member. The Executive Director of the Authority shall serve as a nonvoting member. The Chair may appoint a nonvoting advisory committee to provide advice and recommendations on Authority matters. The members appointed by the Governor shall be residents of the State and shall serve for terms of four years, except for the initial appointees who shall be appointed so that the terms are staggered after initial appointment. Initial appointees shall serve terms as follows: two members for two years, two members for three years and two members for four years. The Secretary of Economic Development or the Secretary's designee shall serve as the Chair of the Authority.

The Authority is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue; and its ability to issue tax-exempt debt.

The financial reporting entity as defined by GASB No. 39 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the “cornerstone of all financial reporting in government.”

NATURE OF ORGANIZATION - continued

Office of the Executive Director

The Executive Director is empowered to organize the Authority and its divisions and may transfer or merge functions between divisions in the interest of efficiency and economy. The Administrative Services Division provides overall support.

Administrative Services Division

The Director of the Administrative Services Division of the Economic Development Department is responsible to the Executive Director to provide administrative support to all divisions and top-level managers. This division is responsible for the data processing, financial systems, budget, accounting, purchasing, personnel, financial reporting and federal grant functions of the Authority.

Regional Spaceport District

The Regional Spaceport District of the State of New Mexico was created under local government laws under the Regional Spaceport District Act, Section 5-16-1 et.seq., NMSA 1978. This district acts as an oversight board for the New Mexico Spaceport Authority. The Spaceport Authority is not considered to be a component unit of the district as described by GASB 14 & 39. The Regional Spaceport District was created to monitor economic developments related to the Spaceport in Dona Ana and Sierra counties. During fiscal year 2009, the Spaceport District authorized the issuance of Spaceport Revenue Bonds and Spaceport issued bonds in FY 2010, which are financed through gross receipt taxes from the above counties.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. 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.

The Authority implemented the provisions of GASB No. 34 effective July 1, 2001. As a part of this statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, etc.). The Authority does not own any infrastructure assets and, therefore, is unaffected by this requirement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Financial Reporting Entity**

The chief executive of the Authority is the Executive Director, who is appointed by the Spaceport Authority Board of Directors. The Authority, by statute, is administratively attached to a component unit of the executive branch, New Mexico Economic Development Department, and these financial statements include all funds and activities over which the Authority Executive Director has oversight responsibility. Even though the Authority appoints the Executive Director, that person has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The Authority is a “department” of the State of New Mexico and will be included in any statewide Comprehensive Annual Financial Report. In accordance with the criteria set forth in GASBS 14 for determining component units, the Authority does not have any component units.

• Basic Financial Statements

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole, or major individual funds (within the fund financial statements). In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

• 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. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide Statement of Activities reflects both the gross and net costs that are being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The primary function of the Authority is to develop spaceport facilities in New Mexico.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Government-wide and Fund Financial Statements - continued**

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include severance tax bond proceeds, grants and appropriations. On an accrual basis, revenue from severance tax bond proceeds is recognized when the underlying transaction has occurred. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The net cost (by function or business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Authority does not currently employ indirect cost allocation systems.

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. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

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 government-wide presentation.

The Government-wide financial statements are prepared using the economic resources measurement focus and the accrued basis of accounting. The fund financial statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

The Authority does not have any fiduciary funds. By definition, assets in a fiduciary fund are held for the benefit of a third party and cannot be used to address activities or obligations of the government. These funds would not be incorporated into the government-wide statements.

There was no short-term debt activity in FY2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**• 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. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements. 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 Authority uses the following fund types:

General Fund. The General Fund (Statewide Human Resource, Accounting and Management Reporting System (SHARE) Fund 81700) is the general operating fund of the Authority and is used to account for all financial resources. The General Fund is funded primarily through appropriations from the State of New Mexico General Fund and severance tax bond proceeds.

Regional Spaceport District Fund. The Regional Spaceport District Fund (Statewide Human Resource, Accounting and Management Reporting System (SHARE) Fund 10570) was established in during 2009 when Dona Ana and Sierra Counties passed a gross receipts tax. The Regional Spaceport District Fund issues bonds and services the debt from receipt of gross receipts tax revenue. This is a major debt service fund.

• Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements are presented on the accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on the modified accrual basis.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Accrual**

Revenues are recognized when earned and expenses are recognized when incurred.

• Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Authority considers funds available if received within "60 days" after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB No. 33 (as it relates to non-exchange and exchange 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 eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

• Budgets and Budgetary Accounting

Per the General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **Budgets and Budgetary Accounting – continued**

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

- No later than September 1, the Authority submits to the Legislative Finance Committee (LFC), and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
- Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriation Act.
- The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
- Not later than May 1, the Authority submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA-Budget Division reviews and approves the operating budget, which becomes effective on July 1.
- Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue funds.

• **Cash and Cash Equivalents – Investment in State General Fund Investment Pool**

The Authority has defined cash and cash equivalents to include investments with the State Treasurer in the State General Fund Investment Pool. All cash is deposited with and monitored by the State Treasurer. See Note 2 for additional cash disclosure.

• **Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy (i.e., the dollar value, above which, asset acquisitions are added to the capital accounts) is \$5,000. However, all capital outlay purchases may not necessarily be capitalized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Capital Assets - continued**

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Department utilizes IRS Publication 946 to estimate the useful lives on fixed assets as follows:

- Buildings and Structures - 40 years
- Equipment and Furniture – 5 to 10 years

The Department had no internal software development in the current year.

• Deferred Revenues

Deferred revenues represent a liability for the Governmental Funds. Deferred revenues are used to account for (1) amounts received from severance tax bonds prior to expenditures occurring, or (2) amounts identified as accounts receivable that have not been received within 60 days of the end of the fiscal year, and are accounted for on the modified accrual basis in the fund financial statements.

• Due To/From Other Funds

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. There were no internal balances.

• 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:

General Fund (Fund 81700) - The source of these funds includes, but is not limited to, general fund appropriations, severance tax bond proceeds Spaceport Development Act [Section 58-31-17 NMSA 1978]; interest earned upon any money in the Fund.

Regional Spaceport District Fund (Fund 10570) – The source of these funds include GRT bond proceeds (debt) and gross receipts tax used to service bonds issued by the Authority in July 2009. In 2010, the fund also included capital project expenditures financed through bond proceeds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Reserve for Subsequent Years' Expenditure**

Reserve for subsequent years' expenditure represents the portions of the severance tax bond proceeds reserved in advance and GRT bond proceeds that are legally segregated for specific future use, such as capital projects and debt service.

- **Revenues, Expenditures and Expenses**

Substantially all governmental fund revenues are accrued.

Expenditures are recognized when the related fund liability is incurred, except for the following permitted by accounting principles generally accepted in the United States of America:

Prepaid items and inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

When an expense is incurred that meets the requirements of both restricted and unrestricted resources, the Authority will first apply it to available restricted net assets.

- **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. There were no program revenues generated or received.

- **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 Net Assets are liquid assets (generated from revenues and not bond proceeds), which are legally enforceable and have third-party (statutory, bond covenant or granting agency) limitations on their use. As of year end, the Authority had \$17,997,643 in this category.

Unrestricted Net Assets represent unrestricted liquid assets.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Net Assets - continued**

The Authority applies unrestricted resources first for payment of expenditures.

- **Use of Estimates**

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

2. **CASH (INVESTMENT IN STATE GENERAL FUND INVESTMENT POOL)**

<u>Fund</u>	<u>SHARE Fund</u>	<u>Investment</u>	<u>Fair Value June 30, 2010</u>
General Fund	81700	NM STO General Fund Investment Pool	\$ -
Regional Spaceport Fund	81710	NM STO General Fund Investment Pool	<u>2,917,265</u>
Total investments			\$ <u>2,917,265</u>

The General Fund cash overdraft of \$5,368,761 was recorded as a liability by the Department.

- **Interest Rate Risk**

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**

The New Mexico State Treasurer’s Office Pool is not rated.

For additional GASB 40 disclosure information related to the above investment pool, the reader should refer to the separate audit report for the State Treasurer’s Office for the fiscal year ended June 30, 2010.

3. **COMPENSATED ABSENCES**

Qualified employees are entitled to accumulate annual leave as follows: A maximum of 240 hours of such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess 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.

3. COMPENSATED ABSENCES - continued

Qualified employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period.

Employees who have accumulated 600 hours of unused sick leave are entitled to be paid for additional unused sick leave at a rate equal to 50 percent of their hourly rate of pay for up to 120 hours of sick leave. Payment for unused sick leave may be made only once per fiscal year on either the payday immediately following the first full pay period in January or the first full pay period in July. Immediately prior to retirement from the service, employees who have accumulated 600 hours of unused sick leave are entitled to be paid for additional unused sick leave at a rate equal to 50 percent of their hourly rate for up to 400 hours of sick leave.

All sick leave balances from 600 to 1,000 hours have been recorded at 50 percent of the employee's current hourly rate, including those amounts paid in July of the subsequent fiscal year, because no expendable financial resources are available as of the balance sheet date to liquidate the liability. The current portion of compensated absences payable expected to be paid within one year is \$27,983.

The changes in compensated absences for government type activities are as follows:

	<u>Balance, June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2010</u>	<u>Due Within One Year</u>
Compensated absences	\$ <u>40,294</u>	<u>28,229</u>	<u>(40,540)</u>	<u>27,983</u>	<u>27,983</u>

The General Fund will be used to liquidate long-term liabilities.

NEW MEXICO SPACEPORT AUTHORITY

Notes to Financial Statement - continued

4. CAPITAL ASSETS

GASB No. 34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc.

House Bill 1074 was enacted, which amended part of the Audit Act (12-6-10 NMSA 1978) to require agencies to capitalize only acquisitions whose cost is over \$5,000.

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions,</u> <u>Including</u> <u>Inventory</u> <u>Exempt</u>	<u>Balance</u> <u>June 30, 2010</u>
Equipment and furniture	\$ 58,664	18,127	-	76,791
Buildings and structures	-	-	-	-
Construction in process	<u>14,104,902</u>	<u>55,826,005</u> *	<u>-</u>	<u>69,930,907</u>
Total capital assets	14,163,566	55,844,132	-	70,007,698
Accumulated depreciation:				
Equipment and furniture	<u>(5,866)</u>	<u>(7,495)</u>	<u>-</u>	<u>(13,361)</u>
Total accumulated depreciation	<u>(5,866)</u>	<u>(7,495)</u>	<u>-</u>	<u>(13,361)</u>
Net capital assets	\$ <u><u>14,157,700</u></u>	<u><u>55,836,637</u></u>	<u><u>-</u></u>	<u><u>69,994,337</u></u>

Depreciation expense for the fiscal year was \$7,495 and was charged to Spaceport Development.

* Of this amount \$1,506,236 were expenditures incurred by New Mexico Economic Development Department (NMEDD) financed through severance tax bond proceeds appropriated to NMEDD for Spaceport construction (See Note 12 for additional information).

5. PENSION PLAN – 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, NM 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. From the 2009 legislative session House Bill 854 temporarily shifts the burden of 1.5% of employer PERA contributions to state employees whose annual salaries exceed \$20,000. For the two-year period from July 1, 2009 to June 30, 2011, the employer contribution rates will be reduced by 1.5% and the employee contribution rates will be increased by 1.5%. After this temporary shift the burden will return to the employer. 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 fiscal years ending June 30, 2010, 2009 and 2008 were \$67,088, \$53,751 and \$30,713, respectively, which equal the amount of the required contributions for each fiscal year.

6. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**• Plan Description**

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in

6. **POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN - continued**

• **Plan Description - continued**

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, 2010, the statute required each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through 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>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

6. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN - continued

• **Funding Policy - continued**

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.

The Authority's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$5,765, \$4,212 and \$2,407, respectively, which equal the required contributions for each year.

7. CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

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.

8. OPERATING TRANSFERS

During the fiscal year, the Authority received funds that were recorded as "Other Financing Sources" in the financial records. These amounts include \$1,245,500 appropriated to Department of Finance and Administration (DFA) for distribution to the Authority for the State General Fund appropriation.

	SHARE Agency/Fund	Transfers In	Transfers Out
General Fund:			
(1) SHARE System Fund 81700	34100-62000	\$ <u>1,245,500</u>	<u> </u>

NEW MEXICO SPACEPORT AUTHORITY

Notes to Financial Statements - continued

9. DUE TO/FROM OTHER STATE AGENCIES

NMSP A Fund	Purpose	Agency Name	Agency Fund	Due From	Due To
87100	To fund Agency's payroll	NM Economic Development Dept.	41900	\$ -	59,905
87100	Reversions	Dept. of Finance & Administration	85300	-	73,700
87100	Stale dated warrants	Dept. of Finance & Administration	85300	-	6,720
87100	Severance tax draws	Dept. of Finance & Administration	85300	<u>11,898,699</u>	<u>6,720</u>
	Total			\$ <u>11,898,699</u>	<u>140,325</u>

10. DUE TO/FROM OTHER FUNDS

Amounts in this category represents receivables arising from expenditures paid by one fund on behalf of the other fund. There were no interfund receivables or payables at year end.

11. LONG-TERM DEBT

In July 2010, the New Mexico Finance Authority issued series 2009 Series C Public Projects Revolving Fund Revenue Bonds on behalf of the Authority. These bonds were issued to provide funding for New Mexico Spaceport Authority payments associated with the construction of the Spaceport America site. The 2009 Series C was issued with a par value of \$55,810,000. Associated bond issuance costs of \$837,150 were paid for by the Authority. The premium and issuance costs will be amortized using the straight-line method over the life of the bond. The Authority's share of governmental gross receipts tax is pledged to repay these bonds. It is not expected that the bond proceeds will be used in a manner that would cause the bonds to be "arbitrage bonds" under section 148 of the Internal Revenue Code of 1986. Interest rate on the 2009 Series C bonds vary from 2.50% to 5.25%. The reserve account shall be built up to \$4,986,635 from the excess of pledged tax revenue over current year payments. The reserve account will be maintained in the debt service fund. Interest expense for the current fiscal year was \$2,203,807. The current portion of long-term debt is \$1,905,000.

NEW MEXICO SPACEPORT AUTHORITY

Notes to Financial Statements - continued

11. LONG-TERM DEBT - continued

The changes in long-term balances for fiscal year 2010 are as follows:

	<u>Balance, June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2010</u>	<u>Due Within One Year</u>
2009 Series C	\$ <u>-</u>	<u>55,810,000</u>	<u>(2,025,000)</u>	<u>53,785,000</u>	<u>1,905,000</u>

Maturities of the bond issuances for the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009 Series C:			
2011	\$ 1,905,000	2,468,011	4,373,011
2012	1,965,000	2,410,861	4,375,861
2013	2,020,000	2,354,536	4,374,536
2014	2,100,000	2,275,236	4,375,236
2015	2,165,000	2,207,836	4,372,836
2016 - 2020	12,505,000	9,371,081	21,876,081
2021 - 2025	15,660,000	6,211,231	21,871,231
2026 - 2029	<u>15,465,000</u>	<u>2,027,833</u>	<u>17,492,833</u>
Total	\$ <u>53,785,000</u>	<u>29,326,625</u>	<u>83,111,625</u>

12. RELATED PARTY TRANSACTIONS

The New Mexico Economic Development Department was appropriated severance tax bond proceeds to be expended toward New Mexico Spaceport Authority construction. The Economic Development Department does not retain title and is treated as a flow-through entity. We have therefore recorded capital assets and other revenue to capture all construction in process related to this appropriation in the Authority's financial statements. The Economic Development Department records expenditures and severance tax bond proceeds for these appropriations.

13. DEFICIT FUND EQUITY

The following fund has a deficit balance for the year ended June 30, 2010:

General Fund	\$ <u>15,851,703</u>
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13. DEFICIT FUND EQUITY - continued

The Authority expects that the fiscal year 2011 operations and severance tax revenues will be sufficient to cover the deficit.

The fund deficit balance is primarily due to amount reclassified from severance tax bond revenue to deferred revenue. These amounts were drawn before expenses were incurred. This indicates the fund balance will be recovered in fiscal year 2011 when the revenues are earned. See information regarding the draws at note 15.

14. BUDGET OVERAGES

Fund 87100 had actual expenditures in excess of budgeted expenditures as of June 30, 2010:

- Contractual Services were over the budgeted amount by \$17,640,915

Fund 10570 had actual expenditures in excess of budgeted expenditures as of June 30, 2010

- Debt service expenditures were over the budgeted amounts by \$5,065,957.
- Contractual services expenditures were over the budgeted amount by \$34,748,694

15. SEVERANCE TAX REVENUE

The Authority entered into a sole source contract with Sierra Electric Cooperative (Sierra) related to the construction of Spaceport America. Per the agreement, funds are to be drawn and set aside for this project from severance tax bonds at the commencement of each project phase. Phase I consisted of estimated costs, and advance of \$7,039,088. Of this amount, \$340,180 in expenditures was earned as of June 30, 2010. This agreement was approved by the New Mexico State Board of Finance. Due to this payment situation, the Authority had a significant amount of deferred revenue at the end of the year \$6,698,908. The Authority expects to earn the full amount over the course of the construction of Spaceport America.

16. NEW PRONOUNCEMENTS

Effective for fiscal years beginning after June 15, 2010, GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will provide modifications to, and additional types of, fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds. Although early implementation is encouraged, the State of New Mexico has decided to implement this new pronouncement for fiscal year ending June 30, 2011. The impact on the Department's financial statements has not yet been determined.

16. NEW PRONOUNCEMENTS - continued

Effective for fiscal years beginning after June 15, 2010, GASB 59, *Financial Instruments Omnibus*, will update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement provides for the following amendments:

- National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees.
- Statements No. 25, *Financial Reporting for Defined Benefit Pensions Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.
- Statement 31 is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.
- Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools – such as bond mutual funds and external bond investment pools – that do not meet the requirements to be reported as a 2a7-like pool.

Statement 53 is amended to:

- Clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance.
- Provide that financial guarantee contracts included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be *investment* derivative instruments entered into primarily for the purpose of obtaining income or profit.
- Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53.
- Provide that one of the “leveraged yield” criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield.

16. NEW PRONOUNCEMENTS - continued

Although early implementation is encouraged, the State of New Mexico has decided to implement this new pronouncement for fiscal year ending June 30, 2011. The impact on the Department's financial statements has not yet been determined.

SUPPLEMENTARY INFORMATION

NEW MEXICO SPACEPORT AUTHORITY

Statement of Revenues and Expenditures -
Major Governmental Fund -
Budget and Actual (Modified Accrual Basis)

YEAR ENDED JUNE 30, 2010

REGIONAL SPACEPORT DISTRICT FUND - FUND 10570				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund appropriation	\$ -	1,220,708	-	(1,220,708)
Other financing sources	-	266,157	6,495,185	6,229,028
Fund Balance Rebudgeted	-	<u>1,430,400</u>	-	<u>(1,430,400)</u>
TOTAL REVENUES	-	2,917,265	6,495,185	3,577,920
EXPENDITURES:				
Current:				
Other	-	-	5,065,957	(5,065,957)
Contractual Services	-	-	34,748,694	(34,748,694)
Other financing uses	-	<u>2,917,265</u>	-	<u>2,917,265</u>
TOTAL EXPENDITURES	\$ <u>-</u>	<u>2,917,265</u>	<u>39,814,651</u>	<u>(36,897,386)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER FINANCING SOURCES			\$ <u>(33,319,466)</u>	

YEAR ENDED JUNE 30, 2010

<u>Project Number</u>	<u>Project Description</u>	<u>Amount Appropriated</u>	<u>Amount Reverted</u>	<u>Art in Public Places</u>
A/D06-2260	Laws of 2007, Chapter 42, Section 100, Paragraph C-1	\$ 33,000,000	-	200,000
C08-4780	Laws of 2008, Chapter 92, Section 76, Paragraph C	7,500,000	-	-
D06-2260	Laws of 2007, Chapter 42, Section 100, Paragraph C-2	33,000,000	-	-
A/D06-2260	Laws of 2007, Chapter 42, Section 100, Paragraph C-3	<u>34,000,000</u>	<u>-</u>	<u>-</u>
		\$ <u>107,500,000</u>	<u>-</u>	<u>200,000</u>

NEW MEXICO SPACEPORT AUTHORITY

Supplemental Schedule of Severance Tax Appropriations

<u>Amount Available</u>	<u>Expenditures Reported Prior Years</u>	<u>Expenditures Reported Current Year</u>	<u>Authorized Advance Amounts Received (deferred revenue)</u>	<u>6/30/2010 Balance Available</u>
32,800,000	2,200,028	19,712,060	3,941,460	6,266,092
7,500,000	-	-	-	7,500,000
33,000,000	-	-	2,757,448	30,242,552
<u>34,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,000,000</u>
<u>107,300,000</u>	<u>2,200,028</u>	<u>19,712,060</u>	<u>6,698,908</u>	<u>78,689,004</u>

AS OF JUNE 30, 2010

<u>Name of Depository</u>	<u>Account Name</u>	<u>Fund Type</u>
NM State Treasurer	General Fund	General
NM State Treasurer	Regional Spaceport District Fund	Debt Service
NM State Treasurer	Regional Spaceport District Fund (Held at Trustee - New Mexico Finance Authority)	General
NM State Treasurer	Sierra Electric Company Cost Advance Account	General

NEW MEXICO SPACEPORT AUTHORITY

Supplemental Schedule of Cash Accounts Including Investments

SHARE System Fund No.	Type of Account	Bank Balance	Outstanding Items	Book Amount
87100	State Treasury	\$ (12,067,669)	-	(12,067,669)
10570	State Treasury	2,917,265	-	2,917,265
10570	State Treasury	23,198,402	-	23,198,402
87100	State Treasury	<u>6,754,134</u>	<u>(55,226)</u>	<u>6,698,908</u>
		\$ <u><u>20,802,132</u></u>	<u><u>(55,226)</u></u>	<u><u>20,746,906</u></u>

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Board of Directors
New Mexico Spaceport Authority
and
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 debt service fund presented as supplemental information of the New Mexico Spaceport Authority (Authority), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our 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, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies. 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



Board of Directors
New Mexico Spaceport Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2010-01, 2010-02.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2010-03.

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 noted certain matters that are required to be reported under 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 findings 2010-01 through 2010-04.

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 response and, accordingly, we express no opinion on it.

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 Legislature and is not intended to be and should not be used by anyone other than these specified parties.



December 14, 2010

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Spaceport Authority (Authority).
2. Three significant deficiencies were disclosed during the audit of the financial statements, two of which were considered to be material weaknesses.
3. There were no instances of noncompliance material to the financial statements of the Authority disclosed during the audit.

YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2010-01 SEVERANCE TAX BOND TRACKING (Material Weakness)

Condition: During our audit of Severance Tax Bond proceeds, we noted that the Authority was authorized to draw funds in advance of expenditures. The funds were held in a bank account in the name of the Authority that was not recorded on the General Ledger. The Authority was tracking the funds off the accounting records. As a result the following activity was unrecorded on the general ledger:

- \$340,000 in project expenditures
- \$6.7 million in advanced funds were recorded in revenue and expenditures, but as it was unearned it should have been recorded in unearned revenue
- \$6 million balance in cash account

Additionally, these transactions were not budgeted in Fund 87100.

Criteria: Based on Model Accounting Practices 0.9.3 Internal Control Activities, all accounting transactions must be recorded to ensure completeness of the accounting records. Also, according to NMAC 2.2.2.10, if actual expenditures exceed budgeted expenditures at the legal level of budgetary control, the fact must be reported in a finding and disclosed in the notes to the FS.

Cause: Although the authority was tracking and approving disbursements the funds in this account, they were not recording any transactions on the general ledger.

Effect: All accounts noted above were understated prior to adjustment. Fund 87100 had actual expenditures in excess of budgeted expenditures as of June 30, 2010:

- Contractual Services were over the budgeted amount by \$17,640,915

Recommendation: Ensure that all financial activity of the Authority is properly recorded on the general ledger by those that have oversight of the funds, on a monthly basis.

Management's Response: New Mexico Spaceport recently opened a Bank Account with the approval of State Treasurer; however these funds must be appropriately recorded on our General Ledger. Economic Development Department on behalf of NM Spaceport will capture all activity and book in SHARE on monthly basis.

YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2010-02 GROSS RECEIPTS TAX REVENUE BONDS DEBT (Material Weakness)

Condition: The authority issued GRT revenue bonds during FY2010 (Note 11), none of the activity related to the transaction was recorded on the general ledger:

- bond proceeds of ~\$58M
- debt issuance costs ~\$837,000
- bond interest and debt service expenditures of ~\$4M
- project expenditures of ~\$40M
- cash balance in account held at Trustee ~\$23M
- interest revenue earned on the proceeds - ~\$48K

Additionally, these transactions were not budgeted in Fund 10570.

Criteria: Based on Model Accounting Practices 0.9.3 Internal Control Activities, all accounting transactions must be recorded to ensure completeness of the accounting records. Also, according to NMAC 2.2.2.10, if actual expenditures exceed budgeted expenditures at the legal level of budgetary control, the fact must be reported in a finding and disclosed in the notes to the FS.

Cause: Lack of established process to record activity.

Effect: All accounts noted above were understated prior to adjustment. Fund 10570 had actual expenditures in excess of budgeted expenditures as of June 30, 2010

- Debt service expenditures were over the budgeted amounts by \$5,065,957.
- Contractual services expenditures were over the budgeted amount by \$34,748,694

Recommendation: Develop monthly business practices to ensure all transactions of the authority are properly recorded on the general ledger by those that have oversight of the funds. Also, the authority should budget for all financial activity of the Authority.

Management's Response: NM Spaceport Authority issued GRT revenue bonds in FY 2010 and are not currently being recorded on the general ledger, in the future NM Spaceport Authority must send a

YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2010-03 CAPITAL ASSETS (Significant Deficiency) - continued

Management's Response - continued: monthly packet to Economic Development Department and capture all activity in SHARE on a monthly basis.

Condition: During the capital assets testwork, we noted that the capital asset listing did not include all the capital expenditures in the construction in process category. The records are maintained in such a

Condition - continued: manner it does not provide the information necessary to recalculate and verify the accuracy of depreciation expense and accumulated depreciation.

Criteria: GASB 34 requires that... "Agency's capital assets system must be able to calculate current year depreciation expense and maintain accumulated depreciation balances effective July 1, 2001. Also, all agencies should maintain a listing of capital assets recording, at a minimum, the property identification number, description and location of the asset, as well as the method of acquisition, funding source, date of acquisition, date of disposal, and cost."

Per NMSA 2.20.1.8, Fixed Assets Accounting System, requires that the Capital Assets Listing includes: Agency Name, Fixed Asset Number, Description, Location, Manufacturer Name, Model Number, Serial Number, Estimated Useful Life, Date Acquired, Cost, Fund and Organization that Purchased the Asset.

Cause: Lack of streamlined processes between ASD in Santa Fe and operations in Las Cruces.

Effect: The Authority is not in compliance with GASB 34 and NMSA 2.20.1.8.

Recommendation: We recommend that management create and maintain a proper listing of capital assets. The listing needs to include all necessary information such as asset description; cost, voucher number, and vendor name; date placed in service; estimated useful life; depreciation method; depreciation expense and accumulated depreciation for the year ; date asset retired and selling price (if applicable). Specifically, the Authority should maintain a listing of construction in process, as expenditures are made.

Management's Response: New Mexico Spaceport Authority is growing rapidly and the amount of assets NM Spaceport Authority must monitor, will consume the time of one FTE. In the future EDD and NMSA will discuss a plan to monitor and maintain fixed assets properly and accurately.

YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2010-04 LATE SUBMISSION OF FINANCIAL STATEMENTS

Condition: Meyners + Company (auditor) submitted the FY10 audited financial statements and auditors' reports for the New Mexico Spaceport Authority on December 15, 2010, in advance of the 5:00 pm due date (of that date) per 2.2.2.9 (f) NMAC. However, the *Report on Internal Control Over Financial Reporting* included a finding listed as 2010-04 which did not correspond to the findings on the following pages.

The New Mexico Office of the State Auditor (SAO) rejected the original submission. The SAO notified the auditor of the rejection on December 29, 2010, and requested that 1) the report be resubmitted with the correct finding listing included and, 2) that a late audit report finding be included in the report.

Criteria: Per SAO review, the *Report on Internal Control over Financial Reporting* included a finding not found on the findings on the following pages, which is considered to be inconsistent.

Cause: The auditor inadvertently included a finding on the one page which was not found on the following pages.

Effect: There was no effect on the Spaceport Authority's financial statements. There was a typographical error which resulted in inconsistency.

Recommendation: The auditor will ensure that the updated *Report on Internal Control Over Financial Reporting* does not include findings not found on the pages following.

Management's Response: Management does not consider further comment is necessary.

NEW MEXICO SPACEPORT AUTHORITY

Summary Schedule of Prior Year Audit Findings

09-01 Unable to Verify Timely Deposit of Cash Receipts - Resolved

09-02 Restatement of Professional Service Contract Expenditures - Resolved

NEW MEXICO SPACEPORT AUTHORITY

Exit Conference

An exit conference was held with the Authority on December 14, 2010, at the New Mexico Economic Development Department's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO SPACEPORT AUTHORITY

Allan Oliver, Acting Secretary, Economic Development Department
Lisa Ortiz, ASD Director
Rick Homans, Executive Director, New Mexico Spaceport Authority (by phone)

MEYNEERS + COMPANY, LLC

Janet Pacheco-Morton, CPA, CGFM, Director
Jenn White, CPA, In Charge Accountant

PREPARATION OF FINANCIAL STATEMENTS

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