

NEW MEXICO SPACEPORT AUTHORITY
Las Cruces, New Mexico

FINANCIAL STATEMENTS
June 30, 2011

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**NEW MEXICO SPACEPORT AUTHORITY
OFFICIAL ROSTER
June 30, 2011**

Board Members – Space Authority

Christine Anderson, Executive Director

Rick Holdridge, Chairman

John Sanchez, (ex officio) Lt. Governor

David Buchholtz, Member

Irvin Diamond, Member

Sid Gutierrez, Member

Scott Krahling, Member

Jerry Stagner, Member

Benjamin E. Woods, Member

Economic Development Department Administrative Services

Kurt Saenz, ASD Director

Danni V. Sutana, Finance Manager

New Mexico Spaceport Authority Administrative Services

Belinda Lucero, Administrative Services Manager

Independent Auditor's Report

To the Board of Directors of
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 of the New Mexico Spaceport Authority (NMSA), as of and for the year ended June 30, 2011, which collectively comprise NMSA's basic financial statements as listed in the table of contents. We also have audited the financial statements of NMSA's budgetary comparisons for the major debt service fund and major capital projects fund. These financial statements are the responsibility of NMSA'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 NMSA'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 NMSA 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 and major capital projects fund of the Department as of June 30, 2011, 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, 2011, or the respective changes in the financial position thereof, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of NMSA as of June 30, 2011, and the respective changes in financial position thereof, and the respective budgetary comparisons for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the major debt service fund and major capital projects 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 13, 2011 on our consideration of NMSA'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 9 are not a required part of the basic financial statements but are 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 supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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.

Clifton Gunderson LLP

Albuquerque, New Mexico
December 13, 2011

NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

The New Mexico Spaceport Authority's (NMSA) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of NMSA's financial activity, identify changes in NMSA'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 NMSA, we offer readers this narrative overview and analysis of the financial activities of NMSA for the year ended June 30, 2011.

Authority Overview

NMSA, established by the Spaceport Development Act of 2005, is mandated to plan, develop and operate the first purpose-built, commercial spaceport, Spaceport America, and reap the corresponding economic benefits for New Mexico. The vision for Spaceport America is to become the world's premier commercial space launch facility providing first class services to customers and delighting and inspiring visitors. The program mission is to provide safe, efficient and effective service for commercial and research & development customers, as well as an educational, inspirational and fun experience for visitors.

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 NMSA 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 Armadillo Aerospace, UP Aerospace, Micro Gravity Enterprises, Lockheed Martin and Payload Specialties. UP Aerospace will be relocating to Sierra County from Colorado, and Armadillo Aerospace will expand to Las Cruces from Texas. Spaceport America has participated in a number of proposal teams for Air Force programs for fly-back boosters, and is hopeful of expanding its defense portfolio.

Sir Richard Branson's Virgin Galactic is the anchor tenant, slated to occupy the Terminal Hangar Facility designed by URS Corporation of Albuquerque and Foster + Partners of London. The Virgin Galactic lease and associated user fees represent a potential value of between \$150M and \$250M. Virgin Galactic is expected to employ between 75-200 employees at the Spaceport. NMSA will employ 50-100 people to run Spaceport America. The indirect jobs will be far greater to support the supply chain, tourism and educational components.

From the fall of 2009 to the first half of 2011, thirteen different large contracts have been awarded on various components of the Spaceport America Phase 1 infrastructure, and New Mexico contractors have been successful in bidding the project.

NMSA also recently awarded a contract to develop the public "Visitor Experience" at Spaceport America, including the design, development, construction and fit-out of new dedicated visitor facilities. The contract was awarded to Integrity Arts and Technology dba IDEAS, and their team will also be developing the brand, marketing and messaging strategy for Spaceport America. NMSA has committed to supporting off-site welcome centers, as well as an on-site

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

visitor facility. Completion of these facilities is expected in 2013. Ultimately, this visitor experience is intended to inspire the next generation of New Mexicans to pursue opportunities in science, technology, engineering and math (STEM).

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 has been underway at NMSA to ensure that the operational needs of the site are met before the onset of commercial launch activity in 2013. This entails development of concepts of operation, business plans, development master plans, and operational plans for general, protective, technical and hospitality management services. Requests for proposal (RFP) were issued for a large contractor workforce starting in late 2010 for a ramp up of staffing over a two year period. Contract award has recently been made for protective services to Fiore Industries, and General & Technical Services are anticipated later in 2011. Hospitality Management services are likely to be procured by mid 2012. Additionally, legal, accounting, project management, media relations, and environmental management services have all been procured in the first half of 2011 to assist in this pre-operational phase.

Financial Highlights

- In the fiscal year ended June 30, 2011, total assets of NMSA exceeded total liabilities by \$81,499,949.
- NMSA purchased \$45,267,480 in total capital assets greater than \$5,000.
- Of the \$60,979,420 in total current assets, 72% was in the form of cash.
- The total cost of NMSA programs was \$3,622,489, whereas the total NMSA general revenue was \$7,377,742. Total program revenue was \$43,569,241.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to NMSA's basic financial statements. NMSA'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 NMSA's financial statements, in a manner similar to a private-sector business.

The statement of net assets presents information on all of NMSA'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 NMSA 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

NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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 NMSA 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 NMSA include Spaceport development. Within NMSA, 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. NMSA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of NMSA can be divided into three categories: general fund, debt service, and capital projects 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.

NMSA currently maintains three 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), the Regional Spaceport District Fund (SHARE Fund 10570) and the Capital Projects Fund (SHARE Fund 20510).

NMSA adopts an annual appropriated budget for its General Fund. The basic governmental fund financial statements can be found on pages 13 and 15 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 NMSA, assets exceeded liabilities by \$81,499,949 at the close of the 2011 fiscal year.

At the end of the 2011 fiscal year, NMSA is able to report positive balances in the category of net assets.

Governmental activities increased NMSA's net assets by \$47,324,494.

Financial Analysis of Governmental Funds

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

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

As of the end of the 2011 fiscal year, NMSA's governmental funds reported combined ending fund balances of \$33,265,198, an increase of \$23,001,234 in comparison with the prior year. The majority of this amount is derived from severance tax bond proceeds and constitutes restricted fund balance, which will not revert to the general fund and is available for spending in the following fiscal year. The remainder of the fund balance is unassigned.

The general fund is the chief operating fund of NMSA. At the end of the 2011 fiscal year, unassigned fund balance of the general fund was \$(6,153,122).

During the 2011 fiscal year, the fund balance of NMSA's general fund increased by \$9,698,581.

Financial Analysis of NMSA as a Whole

Net Assets

Table A-1 summarizes NMSA's net assets as of June 30, 2011. Net assets for Governmental Activities were \$81,499,949.

**Table A-1
NMSA's Net Assets**

AS OF JUNE 30,	2011	2010
Governmental Activities:		
Assets:		
Current and other assets	\$ 60,979,420	\$ 38,058,801
Capital and non-current assets	<u>116,029,937</u>	<u>70,743,365</u>
Total assets	<u>\$ 177,009,357</u>	<u>\$ 108,802,166</u>
Liabilities:		
Current liabilities	\$ 23,786,212	\$ 20,783,003
Non-current liabilities	<u>71,723,196</u>	<u>53,843,708</u>
Total liabilities	95,509,408	74,626,711
Net assets:		
Invested in capital assets, net of related debt	71,859,060	16,209,337
Restricted – capital projects and debt service	9,640,889	17,997,643
Unrestricted, subsequent year's expenditure	<u>-</u>	<u>(31,525)</u>
Total net assets	<u>81,499,949</u>	<u>34,175,455</u>
Total liabilities and net assets	<u>\$ 177,009,357</u>	<u>\$ 108,802,166</u>

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Changes in Net Asset

NMSA's change in assets for fiscal year 2011 was an increase of \$47,324,494 (Statement of Activities). Approximately five percent of NMSA's revenue comes from State General Fund Appropriations; the remaining funds are from severance tax bond proceeds and gross receipts taxes.

**Table A-2
Changes in NMSA's Net Assets**

YEARS ENDED JUNE 30,	2011	2010
Governmental Activities:		
General revenues:		
State General Fund appropriations, net	\$ 1,129,400	\$ 1,171,800
Gross Receipts Tax	6,215,993	6,447,286
Other revenue	6,761	1,506,236
Interest revenue	25,588	47,899
Transfers - Severance tax bond proceeds	<u>43,569,241</u>	<u>13,013,327</u>
 Total general revenues	 <u>50,946,983</u>	 <u>9,173,221</u>
 Expenses:		
Spaceport development	<u>3,622,489</u>	<u>3,558,900</u>
 Total expenses	 <u>3,622,489</u>	 <u>3,558,900</u>
 Increase (Decrease) in net assets	 47,324,494	 18,627,648
 Net assets, beginning of year	 <u>34,175,455</u>	 <u>15,547,807</u>
 Net assets, end of year	 <u>\$ 81,499,949</u>	 <u>\$34,175,455</u>

Financial Analysis of NMSA's Funds

Capital Assets and Debt Administration

NMSA had \$71,859,060 invested in capital assets, net of related debt for the year ended June 30, 2011, the majority being construction in process.

NMSA issued \$20,560,000 in bonds for the year ended June 30, 2011 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
June 30, 2011**

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

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

2011 Highlights:

- New Board of Directors selection by Governor Martinez Feb 9
- New Executive Director hired by Board of Directors Feb 28
- Hosted 4 launch events by Armadillo Aerospace
- VG SpaceShipTwo first feathered flight May 4
- Communications/System Integration contract awarded May 4
- Spaceport Preview Tours begun May 13
- Hosted 3rd annual Education Launch event, 5th UP Aerospace launch May 20
- Protective Services RFP awarded June 29
- Visitor Experience Development contract awarded July 26
- Terminal Hangar Facility named "Virgin Galactic Gateway to Space" July 26
- Dedication of Virgin Galactic Gateway to Space Oct 17
- Virgin Galactic Industry Day Oct 18
- Vertical Launch build-out strategy announced Nov 29
- Lockheed Martin wins ARFL Reusable Booster Contract Dec 5

Requests for Information

This financial report is designed to provide a general overview of NMSA'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.

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2011

	<u>PRIMARY GOVERNMENT Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 39,158,509
Restricted cash	4,986,635
Investment in State General Fund Investment Pool	-
Due from other state agencies	16,788,132
Bond issue cost - current	<u>46,144</u>
Total current assets	60,979,420
NON-CURRENT ASSETS	
Capital assets	115,275,178
Less accumulated depreciation	<u>(21,040)</u>
Net capital assets	115,254,138
Bond issue cost - non-current	<u>775,799</u>
Total non-current assets	<u>116,029,937</u>
 TOTAL ASSETS	 <u><u>\$ 177,009,357</u></u>

	PRIMARY GOVERNMENT
	Governmental Activities
LIABILITIES	
Accounts payable	\$ 2,877,072
Accrued payroll and other liabilities	46,441
Due to other state agencies	903,957
Cash overdraft	13,252,026
Deferred revenues	3,889,674
Bond premium	115,512
Compensated absences payable due within one year	28,455
Interest payable	108,075
Current portion of long-term obligations	<u>2,565,000</u>
Total current liabilities	23,786,212
Long-term obligations	
Non-current portion of long-term obligations	69,875,000
Non-current bond premium	<u>1,848,196</u>
Total liabilities	95,509,408
NET ASSETS	
Invested in capital assets, net of related debt	71,859,060
Unrestricted - subsequent years' expenditure	-
Restricted - capital projects and debt service	<u>9,640,889</u>
Total net assets	<u>81,499,949</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 177,009,357</u></u>

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

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	PRIMARY GOVERNMENT
	Governmental Activities
PROGRAM EXPENSES	
Spaceport development	\$ 3,622,489
Total expenses	3,622,489
PROGRAM REVENUE	
Severance Tax Bond proceeds	43,569,241
Net program revenue (expense)	39,946,752
GENERAL REVENUES	
Transfers - State General Fund appropriation, net of reversions	1,129,400
Interest revenue	25,588
Gross Receipts Tax	6,215,993
Other	6,761
Total general revenues	7,377,742
CHANGE IN NET ASSETS	47,324,494
NET ASSETS, BEGINNING OF YEAR	34,175,455
NET ASSETS, END OF YEAR	\$ 81,499,949

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

NEW MEXICO SPACEPORT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Regional Spaceport District Fund</u>	<u>Capital Projects Fund</u>	
ASSETS				
Investment in State General Fund				
Investment Pool	\$ -	\$ -	\$ -	\$ -
Other cash - held at Trustee or Bank	3,889,674	35,268,835	-	39,158,509
Restricted cash	-	4,986,635	-	4,986,635
Due from other state agencies	<u>13,942,475</u>	<u>-</u>	<u>2,845,657</u>	<u>16,788,132</u>
TOTAL ASSETS	<u>\$ 17,832,149</u>	<u>\$ 40,255,470</u>	<u>\$ 2,845,657</u>	<u>\$ 60,933,276</u>
LIABILITIES				
Accounts payable	\$ 31,415	\$ -	\$ 2,845,657	\$ 2,877,072
Accrued payroll	46,441	-	-	46,441
Due to other state agencies	66,807	837,150	-	903,957
Cash overdraft	13,252,026	-	-	13,252,026
Deferred revenue	10,588,582	-	-	10,588,582
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	23,985,271	837,150	2,845,657	27,668,078
FUND BALANCES				
Restricted	-	39,418,320	-	39,418,320
Unrestricted (unassigned)	<u>(6,153,122)</u>	<u>-</u>	<u>-</u>	<u>(6,153,122)</u>
Total fund balances	<u>(6,153,122)</u>	<u>39,418,320</u>	<u>-</u>	<u>33,265,198</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 17,832,149</u>	<u>\$ 40,255,470</u>	<u>\$ 2,845,657</u>	<u>\$ 60,933,276</u>

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

NEW MEXICO SPACEPORT AUTHORITY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total Fund Balance - Governmental Funds
(Governmental Fund Balance Sheet)

\$ 33,265,198

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	115,275,178
Accumulated depreciation is	<u>(21,040)</u>

Total capital assets	115,254,138
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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)	6,698,908
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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	(72,440,000)
Debt issuance cost (related to bond issuance), net of \$90,206 amortization	821,943
Bond premium (related to bond issuance), net of \$231,024 amortization	(1,963,708)
Accrued interest payable related to Bonds	(108,075)
Compensated absences payable	<u>(28,455)</u>

Net assets of governmental activities (Statement of Net Assets)

\$ 81,499,949

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

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Major Funds			Total Governmental Funds
	General Fund	Regional Spaceport District Fund	Capital Projects Fund	
REVENUES				
Gross Receipts Tax	\$ -	\$ 6,215,993	\$ -	\$ 6,215,993
Interest on loans	591	24,997	-	25,588
Other revenue	<u>6,761</u>	<u>-</u>	<u>-</u>	<u>6,761</u>
Total revenues	7,352	6,240,990	-	6,248,342
EXPENDITURES				
Current:				
Personal services and benefits	694,985	-	-	694,985
Contractual services	18,000	-	-	18,000
Other	200,089	-	-	200,089
Capital Outlay	33,691,024	8,730,799	2,845,657	45,267,480
Debt Service:				
Principal	-	1,905,000	-	1,905,000
Interest and other charges	-	2,787,538	-	2,787,538
Debt issuance costs	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total expenditures	<u>34,604,098</u>	<u>13,498,337</u>	<u>2,845,657</u>	<u>50,948,092</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(34,596,746)	(7,257,347)	(2,845,657)	(44,699,750)
OTHER FINANCING SOURCES (USES)				
Transfers in - State General Fund appropriation	1,129,400	-	-	1,129,400
Bond proceeds - Debt Issuance, net	-	20,560,000	-	20,560,000
Bond proceeds - Severance Tax Bond	<u>43,165,927</u>	<u>-</u>	<u>2,845,657</u>	<u>46,011,584</u>
Net other financing sources	<u>44,295,327</u>	<u>20,560,000</u>	<u>2,845,657</u>	<u>67,700,984</u>
NET CHANGE IN FUND BALANCES	9,698,581	13,302,653	-	23,001,234
FUND BALANCES, BEGINNING OF YEAR	<u>(15,851,703)</u>	<u>26,115,667</u>	<u>-</u>	<u>10,263,964</u>
FUND BALANCES, END OF YEAR	<u>\$ (6,153,122)</u>	<u>\$ 39,418,320</u>	<u>\$ -</u>	<u>\$ 33,265,198</u>

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

**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, 2011**

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 23,001,234

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 increase in the liabilities for the year was (472)

Repayment of bond principal is an expenditure in the Governmental Funds, but it reduces long-term liabilities in the Statement of Net Assets. Issuance of Bonded Debt is an other financing source in the governmental funds, but increases long-term liability in the statement of net assets.

Bond Proceeds	(20,560,000)
Principal Payments	1,905,000

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	75,000
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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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Amortization of bond issuance costs not recorded in the governmental funds and is recorded as an expense in the Statement of Activities	(46,146)
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Change in deferred revenue due to amounts defined at the fund level not received during period of availability in prior year (modified accrual basis) and was recognized as revenue; however, at government-wide level (full accrual) it was recognized in prior year and amounts in current year not received during period of availability deferred at fund level, but recognized as revenue at government-wide level. In the current period, this amount was:	(2,442,343)
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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, 2011**

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	45,267,480
Depreciation expense	<u>(7,679)</u>
 Excess of capital outlay over depreciation expense	 45,259,801

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. The change in accrued interest from prior year is:

16,908

**Change in net assets of governmental activities
(Statement of Activities)**

\$ 47,324,494

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

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2011

GENERAL FUND - OPERATING FUND (87100)				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
State General Fund appropriation	\$ 1,174,500	\$ 1,129,400	\$ 1,129,400	\$ -
Other state funds	-	-	43,165,927	43,165,927
Interest, other	-	-	7,352	7,352
	<u>\$ 1,174,500</u>	<u>\$ 1,129,400</u>	<u>44,302,679</u>	<u>\$ 43,173,279</u>
TOTAL REVENUES	<u>\$ 1,174,500</u>	<u>\$ 1,129,400</u>	<u>44,302,679</u>	<u>\$ 43,173,279</u>
EXPENDITURES				
Current:				
Personal services and benefits	\$ 789,900	\$ 764,200	694,985	\$ 69,215
Contractual services	194,100	181,600	6,173,291	(5,991,691)
Other	190,500	183,600	200,089	(16,489)
Capital outlay	-	-	27,535,733	(27,535,733)
	<u>\$ 1,174,500</u>	<u>\$ 1,129,400</u>	<u>34,604,098</u>	<u>\$ (33,474,698)</u>
TOTAL EXPENDITURES	<u>\$ 1,174,500</u>	<u>\$ 1,129,400</u>	<u>34,604,098</u>	<u>\$ (33,474,698)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES			9,698,581	
UNBUDGETED ITEMS				
Reversion			-	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			<u>\$ 9,698,581</u>	

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

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – DEFINITION OF REPORTING ENTITY

The reporting entity is the New Mexico Spaceport Authority (NMSA). NMSA was established by the Laws of 2005, Chapter 128, “New Mexico Spaceport Development Act” (Act). The purpose of NMSA 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 NMSA Board of Directors 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 NMSA shall serve as a nonvoting member. The Chair may appoint a nonvoting advisory committee to provide advice and recommendations on NMSA 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 NMSA.

NMSA is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39. NMSA is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of NMSA'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.”

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

NMSA Office of the Executive Director

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

Administrative Services Division

The Director of the Administrative Services Division of the Economic Development Department (EDD) is responsible to the Executive Director to provide administrative support to all divisions and top-level managers. This EDD division is responsible for the data processing, financial systems, budget, accounting, purchasing, personnel, financial reporting and federal grant functions of NMSA. These functions are in a state of transition from EDD to NMSA.

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 years 2009 and 2010, the Spaceport District authorized the issuance of Spaceport Revenue Bonds and Spaceport issued bonds in FY 2010 and 2011, which are financed through gross receipt taxes from Dona Ana County and Sierra County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity

The chief executive of NMSA is the Executive Director, who is appointed by the Spaceport Authority Board of Directors. NMSA, 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 NMSA Executive Director has oversight responsibility. Even though NMSA 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.

NMSA 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, NMSA does not have any component units.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on NMSA as a whole) and fund financial statements. The new reporting model focus is on either NMSA 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.

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 a function. The primary function of NMSA is to develop spaceport facilities in New Mexico.

Non-exchange transactions, in which NMSA 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.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The net cost (by function) 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. NMSA does not currently employ indirect cost allocation systems.

This government-wide focus is more on the sustainability of NMSA 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 NMSA'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.

NMSA 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 FY 2011.

Basis of Presentation – Fund Accounting

The financial transactions of NMSA 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.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NMSA uses the following fund types:

General Fund. The General Fund (Statewide Human Resource, Accounting and Management Reporting System (SHARE) Fund 87100) is the general operating fund of NMSA 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 (SHARE Fund 10570) was established in 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.

Spaceport Capital Projects Fund. The Severance Tax Bonds Capital Projects Fund (SHARE Fund 20510) was established at the end of FY 2011 to track capital projects funded by Severance Tax Bonds. This is a major capital projects 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.

Accrual

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

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. NMSA 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.

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

- No later than September 1, NMSA 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.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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, NMSA 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

NMSA has defined cash and cash equivalents to include investments with the State Treasurer in the State General Fund Investment Pool and other State Agency Accounts that are deposited with Bank of America. All cash is monitored by the State Treasurer. See Note 3 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.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value.

Buildings and structures	40 years
Equipment	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.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 NMSA 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. NMSA 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 NMSA in July 2009. In 2010, the fund also included capital project expenditures financed through bond proceeds.

Spaceport Capital Fund (20510) – The source of these funds is Severance Tax Bond proceeds.

Fund Balances

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation. See Note 16 for additional information about fund balances.

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

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, NMSA 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.

Net Assets

The government-wide 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, NMSA had \$9,640,889 in this category.

Unrestricted Net Assets represent unrestricted liquid assets.

NMSA applies restricted resources first for payment of expenditures.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - CASH (INVESTMENT IN STATE GENERAL FUND INVESTMENT POOL)

Fund	SHARE Fund	Investment (Cash)	Fair Value June 30, 2011
General Fund	87100	NM STO General Fund Investment Pool	\$ (13,252,026)
Regional Spaceport District Fund	10570	NM STO General Fund Investment Pool- Held at Trustee	\$ 40,255,470
Bank of America	87100	Bank of America	\$ 3,889,674

The General Fund cash overdraft of \$13,252,026 was recorded as a liability by the Department.

Interest Rate Risk

NMSA 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, 2011.

NOTE 4 - 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.

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 \$28,455.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - COMPENSATED ABSENCES (CONTINUED)

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

	Balance			Balance	Amounts
	June 30, 2010	Increase	(Decrease)	June 30, 2011	Due
					Within
					One Year
Compensated absences	<u>\$ 27,983</u>	<u>\$ 21,613</u>	<u>\$ (21,141)</u>	<u>\$ 28,455</u>	<u>\$ 28,455</u>

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

NOTE 5 – 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.

	Balance			Balance
	June 30, 2010	Additions	Deletions,	Balance
			Including	June 30, 2011
			Inventory	
			Exempt	
Equipment and furniture	\$ 76,791	\$ -	\$ -	\$ 76,791
Buildings and structures	-			-
Construction in process	<u>69,930,907</u>	<u>45,267,480</u>	<u>-</u>	<u>115,198,387</u>
Total capital assets	70,007,698	45,267,480	-	115,275,178
Accumulated depreciation:				
Equipment and furniture	<u>(13,361)</u>	<u>(7,679)</u>	<u>-</u>	<u>(21,040)</u>
Total accumulated depreciation	<u>(13,361)</u>	<u>(7,679)</u>	<u>-</u>	<u>(21,040)</u>
Net capital assets	<u>\$ 69,994,337</u>	<u>\$ 45,259,801</u>	<u>\$ -</u>	<u>\$115,254,138</u>

Depreciation expense for the fiscal year was \$7,679 and was charged to Spaceport Development.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially all of NMSA'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. NMSA 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 NMSA are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. NMSA's contributions to PERA for the fiscal years ending June 30, 2011, 2010 and 2009 were \$66,258, \$67,088 and \$53,751, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 7 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date

**NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

**NOTE 7 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee was required to contribute .833% of their salary. In the fiscal years ending June 30, 2012 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>
FY12	1.834%	.917%
FY13	2.000%	1.000%

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

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

NMSA's contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$7,266, \$5,765 and \$4,212, respectively, which equal the required contributions for each year.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

NMSA 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:

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

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

NOTE 9 - OPERATING TRANSFERS

During the fiscal year, NMSA received funds that were recorded as "Other Financing Sources" in the financial records. These amounts include \$1,129,400 appropriated to Department of Finance and Administration (DFA) for distribution to NMSA for the State General Fund appropriation and \$46,011,584 in Severance Tax Reimbursements from DFA – State Board of Finance.

Fund Type	SHARE Agency/Fund	Transfers In	Transfers Out
General Fund:			
(1) SHARE System Fund 81700	34100-62000	\$ 1,129,400	\$ -
(2) SHARE System Fund 81700	34100-653000	43,165,927	-
(3) SHARE Fund 20510	34100-653000	<u>2,845,657</u>	<u>-</u>
Total		<u>\$ 47,140,984</u>	<u>\$ -</u>

**NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 10 - DUE TO/FROM OTHER STATE AGENCIES

NMSPA Fund	Purpose	Agency Name	Agency Fund	Due From	Due To
87100	To fund Agency's payroll	NMEDD	41900	\$ -	\$ 59,905
87100	Bond Issue Cost	NMFA		-	837,150
87100	Stale dated warrants	DFA	85300	-	6,902
87100	Severance tax draws	DFA	65300	2,845,657	-
20510	Severance tax draws	DFA	65300	<u>13,942,475</u>	<u>-</u>
Total				<u>\$16,788,132</u>	<u>\$ 903,957</u>

NOTE 11 - 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.

NOTE 12 - LONG-TERM DEBT

In June 2009, the New Mexico Finance Authority issued series 2009 Series C Public Projects Revolving Fund Revenue Bonds on behalf of NMSA. 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 with associated bond issuance costs of \$837,150.

In December 2010, the New Mexico Finance Authority issued series 2010 Public Projects Revolving Fund Revenue Bonds on behalf of NMSA. The bonds were issued to provide additional funding for New Mexico Spaceport Authority payments associated with the construction of the Spaceport America site. The 2010 series was issued with a par value of \$20,560,000 with associated bond issuance costs of \$75,000.

The premium and issuance costs will be amortized using the straight-line method over the life of the bond. NMSA'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 rates on the 2009 Series C bonds vary from 2.50% to 5.25% and from 0.47% to 4.08% on the 2010 Series. 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.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - LONG-TERM DEBT (CONTINUED)

Interest expense for the current fiscal year was \$2,679,463. The current portion of long-term debt is \$2,565,000.

The changes in long-term balances for fiscal year 2011 are as follows:

	Balance			Balance	Amounts
	June 30, 2010	Increase	(Decrease)	June 30, 2011	Due
					Within
					One Year
2009 Series C Issuance	\$ 53,785,000	\$ -	\$(1,905,000)	\$51,880,000	\$1,965,000
premium	<u>2,079,220</u>	<u>-</u>	<u>(115,512)</u>	<u>1,963,708</u>	<u>115,512</u>
2009 Series C net balance	<u>\$ 55,864,220</u>	<u>\$ -</u>	<u>\$ (2,020,512)</u>	<u>\$53,843,708</u>	<u>\$2,080,512</u>
2010 Series	<u>\$ -</u>	<u>\$20,560,000</u>	<u>\$ -</u>	<u>\$20,560,000</u>	<u>\$ 600,000</u>

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

Year Ended June 30,	Principal	Interest	Total
2009 Series C:			
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	2,275,000	2,099,586	4,374,586
2017 - 2021	13,085,000	8,788,380	21,873,380
2022 - 2026	16,390,000	5,483,824	21,873,824
2027 - 2029	<u>11,880,000</u>	<u>1,238,352</u>	<u>13,118,352</u>
Total	<u>\$ 51,880,000</u>	<u>\$ 26,858,611</u>	<u>\$ 78,738,611</u>
2010 Series:			
2012	\$ 600,000	\$ 655,317	\$ 1,255,317
2013	605,000	669,300	1,274,300
2014	610,000	665,247	1,275,247
2015	620,000	659,452	1,279,452
2016	625,000	651,764	1,276,764
2017 - 2021	3,350,000	3,060,502	6,410,502
2022 - 2026	3,915,000	2,516,727	6,431,727
2027 - 2029	<u>10,235,000</u>	<u>1,141,744</u>	<u>11,376,744</u>
Total	<u>\$ 20,560,000</u>	<u>\$10,020,052</u>	<u>\$ 30,580,052</u>

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 13 - DEFICIT FUND EQUITY

The following fund has a deficit balance for the year ended June 30, 2011:

General Fund	<u>\$ (6,153,122)</u>
--------------	-----------------------

NMSA expects that the fiscal year 2012 operations and severance tax revenues will be sufficient to cover the deficit.

The fund deficit balance is due to expenses incurred before amounts were drawn (transferred) from bond funds. These amounts were drawn after the close of the fiscal year. It is now the practice of NMSA to draw funds on a monthly basis.

NOTE 14 – BUDGETS FOR CONSTRUCTION EXPENSES

Budgets for capital projects funded by Severance Tax Bond proceeds have not been set up in the Department of Finance and Administration SHARE System. The result is that fund 87100 had actual construction related expenditures that were never budgeted in the SHARE System. As of June 30, 2011 these amounts are:

- Contractual Services - \$5,991,691
- Other Expenditures - \$16,489
- Capital Outlay - \$27,535,733

Budgets for capital projects funded by Gross Receipts Tax Bond proceeds have not been set up in the Department of Finance and Administration SHARE System. The result is that fund 10570 had actual construction related expenditures that were never budgeted in the SHARE System. As of June 30, 2011 these amounts are:

- Debt service expenditures - \$4,767,538
- Contractual services expenditures - \$8,730,799

Budgets for capital projects funded by Gross Receipts Tax Bond proceeds have not been set up in the Department of Finance and Administration SHARE System. The result is that fund 20510 had actual construction related expenditures that were never budgeted in the SHARE System. As of June 30, 2011 these amounts are:

- Capital Outlay - \$932

NOTE 15 - SEVERANCE TAX REVENUE

NMSA entered into a sole source contract with Sierra Electric Cooperative (Sierra) related to the construction of permanent power to Spaceport America. Per the agreement, funds are to be drawn and set aside for this project from severance tax bonds through three bond draws. The total amount transferred was \$7,039,088. Of this amount, \$3,149,414 in expenditures were earned. This agreement was approved by the New Mexico State Board of Finance and the transfer was made by the New Mexico Department of Finance and Administration during FY10 and FY11. As of June 30, 2011 the remaining balance was \$3,889,674. NMSA expects to use the remainder in 2012 to complete this project.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 16 – FUND BALANCE CLASSIFICATIONS

The Department’s fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2011 follows:

	General Fund
Fund balances:	
Unrestricted:	
Unassigned	\$ (6,153,122)
	Regional Spaceport District Fund
Fund balances:	
Restricted for:	
GRT Bond Construction Expenditures, 2009 Series C Public Projects and GRT Bond Construction Expenditures, 2010 Series Public Projects	39,418,320
Total fund balances	\$ 33,265,198

NOTE 17 – RISK MANAGEMENT

The Office obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes public liability, property, workers compensation, surety bond unemployment compensation and group health insurance. These coverages are designed to satisfy the requirements of the State Tort Claims Act. The maximum limits provided by the Tort Claims Act are \$1,050,000 per occurrence.

NMSA had no significant reductions in insurance coverage from coverage in the prior year. In the fiscal years ended June 30, 2011, 2010 and 2009, there were no settlements that exceeded insurance coverage.

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

SUPPLEMENTARY INFORMATION

**NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2011**

REGIONAL SPACEPORT DISTRICT FUND (10570)				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
			(Budgetary Basis)	Positive (Negative)
REVENUES				
State General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other financing sources	-	-	20,560,000	20,560,000
Other state funds	-	-	6,215,993	6,215,993
Interest	-	-	24,997	24,997
	-	-	26,800,990	26,800,990
TOTAL REVENUES	\$ -	\$ -	26,800,990	\$ 26,800,990
EXPENDITURES				
Current:				
Other	\$ -	\$ -	4,767,538	\$ (4,767,538)
Capital outlay	-	-	8,730,799	(8,730,799)
Other financing uses	-	-	-	-
	-	-	13,498,337	(13,498,337)
TOTAL EXPENDITURES	\$ -	\$ -	13,498,337	\$ (13,498,337)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES			\$ 13,302,653	

* No adjustments were necessary to reconcile to GAAP basis.

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2011

SPACEPORT CAPITAL FUND (20510)				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
State General Fund appropriation	\$ -	\$ -	\$ -	\$ -
Other financing sources	-	-	2,845,657	2,845,657
Fund balance rebudgeted	-	-	-	-
TOTAL REVENUES	<u>\$ -</u>	<u>\$ -</u>	2,845,657	<u>\$ 2,845,657</u>
EXPENDITURES				
Current:				
Other	\$ -	\$ -	-	\$ -
Capital outlay	-	-	932	(932)
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	932	<u>\$ (932)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES			2,844,725	
TIMING DIFFERENCE DUE TO ACCOUNTS PAYABLE			<u>(2,844,725)</u>	
NET CHANGE IN FUND BALANCE GAAP BASIS			<u>\$ -</u>	

**NEW MEXICO SPACEPORT AUTHORITY
SUPPLEMENTAL SCHEDULE OF SEVERANCE TAX APPROPRIATIONS
June 30, 2011**

Project Number	Project Description	Amount Appropriated	Amount Reverted
A/D06-2260	Laws of 2007, Chapter 42, Section 100, Paragraph C-1	\$ 33,000,000	\$ -
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>\$107,500,000</u>	<u>\$ -</u>

Art in Public Places	Amount Available	Expenditures Reported Prior Years	Expenditures Reported Current Year	Authorized Advance Amounts Received (Deferred Revenue)	June 30, 2011 Balance Available
\$ 200,000	\$ 32,800,000	\$ 21,912,088	\$ 4,897,968	3,889,674	\$ 2,100,270
-	\$ 7,500,000	-	1,262,093	702,865	\$ 5,535,042
-	\$ 33,000,000	-	30,710,272	-	\$ 2,289,728
-	<u>34,000,000</u>	-	-	-	<u>\$ 34,000,000</u>
<u>\$ 200,000</u>	<u>\$107,300,000</u>	<u>\$ 21,912,088</u>	<u>\$ 36,870,333</u>	<u>\$ 4,592,539</u>	<u>\$ 43,925,040</u>

NEW MEXICO SPACEPORT AUTHORITY
SUPPLEMENTAL SCHEDULE OF CASH ACCOUNTS INCLUDING INVESTMENTS
June 30, 2011

Name of Depository		Fund Type
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)	Debt Service
Bank of America	Sierra Electric Company Cost Advance Account	General

* Details specific for collateral is commingled by the Office of the State Treasurer (which is detailed in the report of the Office of the State Treasurer) and it monitors the adequacy of the funds pledged for collateral to ensure the full coverage as required by the Laws of the State of New Mexico and related statutes.

SHARE				
System Fund No.	Type of Account	Bank Balance	Outstanding Items	Book Amount
87100	State Treasury	\$ (13,252,026)	\$ -	\$ (13,252,026)
10570	State Treasury	-	-	-
10570	State Treasury	40,255,470	-	40,255,470
87100	Checking	<u>3,919,536</u>	<u>(29,862)</u>	<u>3,889,674</u>
		<u>\$ 30,922,980</u>	<u>\$ (29,862)</u>	<u>\$ 30,893,118</u> *

**Independent Auditor's 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, debt service fund and capital projects fund presented as supplemental information of the New Mexico Spaceport Authority (NMSA), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered NMSA'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 NMSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NMSA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2010-01, 2010-02, and 2010-03 to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMSA'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 2011-01 and 2011-02 and 2011-03.

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

This report is intended solely for the information and use of the Board of Directors, management, others within NMSA 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.

Clifton Gunderson LLP

Albuquerque, New Mexico
December 13, 2011

NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

Section I – Summary of Auditor’s Results

1. The auditors’ report expresses an unqualified opinion on the basic financial statements of the New Mexico Spaceport Authority (NMSA).
2. Three significant deficiencies were disclosed during the audit of the financial statements which were considered to be material weaknesses.
3. One control deficiency was disclosed during the audit of the financial statements.
4. There were two instances of non-compliance related to the financial statement.

NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

Section II – Financial Statement Findings

**Finding 2010-01 Recording of Severance Tax Bond Activity (Material Weakness)
(Repeated and Modified)**

Condition: During our audit of Severance Tax Bond proceeds, we noted that NMSA was authorized by the New Mexico State Board of Finance, the New Mexico State Treasurer, and the New Mexico Department of Finance and Administration to draw funds in advance of expenditures. The funds were transferred from NMSA Severance Tax Bond Account to a bank account in the name of NMSA and the Sierra Electric Cooperative for the purpose of funding the permanent power project at Spaceport America. NMSA and Sierra Electric tracked all transactions on a monthly basis; however, the related transactions were not recorded on the DFA SHARE System General Ledger. The amounts are as follows:

- ~\$2.8M in project expenditures
- ~\$2.8M in revenue
- ~\$2.8M decrease in deferred revenue
- ~\$2.8M decrease in cash

Additionally, while no budget was set up in the New Mexico DFA SHARE System related to any severance tax appropriations, we did note that NMSA has internally tracked budgets for these transactions.

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 financial statements.

Cause: Although NMSA was tracking and approving disbursements they were not recording any transactions on the DFA SHARE System general ledger.

Effect: Cash and deferred revenue were overstated and revenue and expense were understated. Fund 87100 had actual expenditures in excess of budgeted expenditures as of June 30, 2011:

- Contractual Services were never budgeted in the SHARE System, thus the accounting records reflect expenditures over the budgeted amount by \$5,991,691
- Capital Outlay was never budgeted in the SHARE System, thus the accounting records show expenditures over the budgeted amount by \$27,535,733
- Other expenditures were never budgeted in the SHARE System, thus the accounting records show expenditures over the budgeted amount by \$16,489

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

**NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section II – Financial Statement Findings (continued)

**Finding 2010-01 Recording of Severance Tax Bond Activity (Material Weakness)
(Repeated and Modified) (continued)**

Management’s Response: NMSA agrees with this finding. In 2009 NMSA contracted with Sierra Electric Cooperative (SEC) in Sierra County to develop and construct the permanent power to Spaceport America. The New Mexico State Board of Finance, New Mexico State Treasurer, and New Mexico Department of Finance and Administration agreed to transfer funds (approximately \$7 million) from the NMSA Severance Tax Bond Account to a joint bank account in the name of NMSA and SEC for the purpose of funding the permanent power project at Spaceport America. DFA transferred these funds in three transactions. NMSA drew the funds down in three bond draws. Detailed bookkeeping was performed by NMSA and SEC but not recorded in the DFA SHARE System. NMSA will record all future transaction and balances in the DFA SHARE System.

**Finding 2010-02 Gross Receipts Tax Revenue Bonds Debt (Material Weakness)
(Repeated and Modified)**

Condition: The New Mexico Finance Authority issued GRT revenue bonds for FY11 during FY 2011. NMFA manages and records all activities associated with these bonds. We noted that none of the following activity related to the transaction was recorded on NMSA’s General Ledger:

- Bond proceeds of ~\$20M
- Debt issuance costs of ~\$75,000
- Bond interest and debt service expenditures of ~\$4.7M
- Project expenditures of ~\$8.7M
- Cash balance in account held at Trustee of ~\$40M
- Interest revenue earned on the proceeds of ~\$25,000
- GRT revenue of ~ \$6M

Additionally, no initial DFA SHARE System budget was set up in fund 10570. However, it was noted that NMSA has an internal budget for these transactions.

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 on DFA SHARE General Ledger.

**NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section II – Financial Statement Findings (continued)

**Finding 2010-02 Gross Receipts Tax Revenue Bonds Debt (Material Weakness)
(Repeated and Modified) (continued)**

Effect: All accounts noted above were understated prior to adjustment. Fund 10570 had actual expenditures in excess of budgeted expenditures as of June 30, 2011.

- Contractual Services were never budgeted in the SHARE System thus the accounting records reflect expenditures over the budgeted amount by \$4,767,538
- Capital Outlay was never budgeted in the SHARE System thus the accounting records reflect expenditures over the budgeted amount by \$8,730,799

Recommendation: Develop monthly business practices to ensure all transactions of NMSA are properly recorded on the DFA SHARE System General Ledger by those that have oversight of the funds. Also, NMSA should establish a budget in the DFA SHARE System for all financial activity of NMSA.

Management's Response: NMSA has two types of Bonds: Severance Tax and Gross Receipt Tax Bonds (GRT). Severance Tax Bonds are managed by the New Mexico Board of Finance. The GRT bonds are issued and managed by the New Mexico Finance Authority (NMFA). NMFA's comptroller records transactions. While no NMSA budget was set up in the New Mexico DFA SHARE system, it is recorded in the NMFA system. NMSA will manually enter transactions and balances in the DFA SHARE System to comply.

Finding 2010-03 Capital Assets (Material Weakness) (Repeated and Modified)

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 manner it does not provide the information necessary to recalculate and verify the accuracy of depreciation expense and accumulated depreciation. In addition, NMSA does not maintain a schedule which is reconciled to the general ledger activity. It was also noted that NMSA is working with NM Department of Information Technology and DFA to implement a Capital Asset Module in the current General Ledger.

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: There is not one central place where all Capital Asset information is tracked.

**NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section II – Financial Statement Findings (continued)

Finding 2010-03 Capital Assets (Material Weakness) (Repeated and Modified) (continued)

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

Recommendation: We recommend that NMSA 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, NMSA should maintain a listing of construction in process, as expenditures are made.

Management's Response: NMSA will work with DFA and DOIT to instantiate a NMSA capital asset management system so that NMSA can more effectively manage its asset record keeping and depreciation system.

Finding 2011-01 Cash Receipts Not Deposited within 24-Hours (Non-Compliance)

Condition: During cash receipts testwork CG noted 1 of 6 instances where cash received was not deposited within one business day. CG also noted 5 of 6 instances where it was not determinable whether the amounts were deposited in the proper time period as there was no sign of the receipt date.

Criteria: Per FIN 2 (Manual of Model Accounting Practices) all monies collected by agencies shall be deposited with the STO or with an authorized banking institution by the end of the next business day after receipt.

Cause: The process involved sending checks from NMSA (overnight) to the New Mexico Economic Development Department for deposit.

Effect: Non-compliance with state regulations and possible understatement of cash and revenue.

Recommendation: CG recommends that NMSA implement a policy requiring receipts to be stamped upon receipt and deposited in a local DFA established bank account.

Management's Response: NMSA has already implemented a policy of deposit within 24 hours of revenue in a local bank account established by DFA.

**NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section II – Financial Statement Findings (continued)

Finding 2011-02 Original Budget not recorded in DFA SHARE System (Non-Compliance)

Condition: NMSA did not record original budgets related to construction expenses in the DFA SHARE System. However, it was noted that NMSA uses an internal budgeting system to track projects. This resulted in the following amounts showing as over the budgeted amount by category:

General Fund:

Contractual services – over \$5,991,691
Other – over \$16,489
Capital Outlay – over \$27,535,733

Spaceport Capital Fund:

Capital Outlay - \$932

Regional Spaceport District Fund:

Other - over \$4,767,538
Capital Outlay – over \$8,730,799

Criteria: According to State Auditor Rule 2.2.2.10, if an agency's expenditures exceed its budget in any category, this fact must be disclosed in a finding.

Cause: NMSA is not properly recording the budget in the DFA SHARE System.

Effect: NMSA is not in compliance with State budgetary regulations.

Recommendation: We recommend that NMSA establish budgets and make budget adjustment requests as necessary in the DFA SHARE System in addition to the internal process currently used.

Management's Response: NMSA agrees with the recommendation and will establish budgets and, when necessary, record transactions in the DFA SHARE System in addition to continuing the internal processes used to record budgets and the related transactions.

Finding 2011-03 Invalid Journal Entry (Control Deficiency)

Condition: During budget testwork we noted an entry in the amount of \$5,386 that had been posted as an example during a training session to a liability and a revenue account.

Cause: NMSA/EDD used the live system for training purposes.

Criteria: Per best practices, live systems should not be used for training purposes.

**NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section II – Financial Statement Findings (continued)

Finding 2011-03 Invalid Journal Entry (Control Deficiency) (continued)

Effect: Revenues and liabilities were overstated.

Recommendation: We recommend NMSA/EDD use avenues for training other than the live system since errors, such as the one noted here, can occur.

Management's Response: NMSA agrees with and will implement this recommendation.

NEW MEXICO SPACEPORT AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2011

Section II – Financial Statement Findings

Finding 2010-01 Recording of Severance Tax Bond Activity (Material Weakness) – Repeated and Modified

Finding 2010-02 Gross Receipts Tax Revenue Bonds Debt (Material Weakness) – Repeated and Modified

Finding 2010-03 Capital Assets (Significant Deficiency) – Repeated and Modified

Finding 2010-04 Late Submission of Financial Statements – Resolved

**NEW MEXICO SPACEPORT AUTHORITY
EXIT CONFERENCE
June 30, 2011**

An exit conference was held with NMSA on December 12, 2011, at the New Mexico Economic Development Department's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO SPACEPORT AUTHORITY

Barbara Brazil, Secretary, Economic Development Department
Christine Anderson, Executive Director, New Mexico Spaceport Authority
Irv Diamond, Board Member, REDW
Dupuy Bateman, Finance Manager, Bateman Group
Kurt Saenz, ASD Director (by telephone)

CLIFTON GUNDERSON LLP

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

PREPARATION OF FINANCIAL STATEMENTS

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