

NEW MEXICO SPACEPORT AUTHORITY
Las Cruces, New Mexico

FINANCIAL STATEMENTS
June 30, 2014

**NEW MEXICO SPACEPORT AUTHORITY
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**NEW MEXICO SPACEPORT AUTHORITY
OFFICIAL ROSTER
As of June 30, 2014**

Board Members – New Mexico Spaceport Authority

Rick Holdridge, Chairman

John Sanchez, (ex officio) Lt. Governor

David Buchholtz, Member

Paul Deason, Member

Irvin Diamond, Member

Sid Gutierrez, Member

Jerry Stagner, Member

Laura Coniff, Member

Christine Anderson, Executive Director

New Mexico Spaceport Authority Administrative Services

Doreen Sieburg, Director of Finance and Administration

Belinda Lucero, Administrative Services Manager



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Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund of the New Mexico Spaceport Authority (NMSA), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise NMSA's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of NMSA's budgetary comparisons for the major capital projects funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying individual fund financial statements as of and for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of NMSA as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparisons for the general fund for the year then ended in accordance 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, as of June 30, 2014, the respective budgetary comparisons for the major capital project funds of NMSA for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2014, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information


Our audit was conducted for the purpose of forming opinions on NMSA's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The supplemental schedule of severance tax appropriations and supplemental schedule of cash accounts including investments are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedule of severance tax appropriations and supplemental schedule of cash accounts including investments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of severance tax appropriations and supplemental schedule of cash accounts including investments are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2014 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 in considering NMSA's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP



Albuquerque, New Mexico
December 12, 2014

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014**

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, 2014.

Authority Overview

NMSA was established by the New Mexico Spaceport Development Act in 2005. NMSA is charged with developing and operating the first purpose-built commercial spaceport in the world. The spaceport, Spaceport America, is situated on 18,000 acres of state land in a remote area of southwest New Mexico. It is adjacent to the US Army White Sands Missile Range (WSMR). NMSA and WSMR have a long standing partnership that allows NMSA to utilize some of their restricted air space, a fact that makes Spaceport America the most viable inland spaceport in the United States. At an altitude of 4,600 feet above sea level and with low humidity and over 300 days of sunshine, it is located in an ideal place and climate. The spaceport has a 12,000 foot runway and several vertical launch pads enabling both horizontal and vertical launches. Twenty-one vertical launches have taken place from the spaceport as of November 2014. The spaceport has two tenants, Virgin Galactic and SpaceX, and several repeat launch customers.

The spaceport business strategy has always focused on diversification of revenue sources. The spaceport has multiple business sectors: space, tourism and events. Others may be added over time. Currently in the space sector, there are two tenants: Virgin Galactic and SpaceX. There are also other space customers like UP Aerospace that has conducted 13 vertical suborbital launches at the spaceport. Discussions are on-going with several other prospective tenants and customers.

Another business sector is tourism. The spaceport has been developing a "Visitor Experience" for spaceport guests to better appreciate and learn about commercial space. Preview tours have been conducted on weekends for the past several years. The Gateway Gallery, a 4,000 square foot part of the Gateway to Space building, will open to the public in the spring 2015. The Gallery features many informative and exciting interactive displays and exhibits. Plans for the off-site visitor center are underway.

Another business sector includes special events like photo-shoots, concerts and on site film productions. There have been many special events to date, including Land Rover, Dodge, and Kawasaki. This sector not only generates revenue but also provides global marketing opportunities for the spaceport.

Now that most of the phase 1 construction is complete construction is much more limited. The spaceport security entrance will be completed in February 2015. The Art in Public Places sculpture should be completed by January 2015. Work is underway on the southern access road, a critical road when traveling to the spaceport from the south, linking Interstate 25 at exit 32 to the spaceport. The BLM is currently reviewing the Environmental Assessment and the Dona Ana County Road Engineers are preparing the Request for Proposals planned for release in the spring 2015.

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014**

On the space operations side, SpaceX is preparing for launches in the summer of 2015. They have invested approximately \$2M in spaceport infrastructure improvements in the vertical launch area.

Virgin Galactic (VG) conducted training flights of the carrier craft, White Knight 2, at the spaceport in September 2014. Spaceport and VG crew conducted productive training exercises. The operations tempo was accelerating in preparation for VG's move to the spaceport in December when VG suffered a tragic mishap October 31. SpaceShip2 was destroyed and one pilot perished. VG is continuing to move forward. A second spaceship, which had been under development, is scheduled for completion in the summer 2015 and then will undergo flight testing.

Financial Highlights

- In the fiscal year ended June 30, 2014, total assets of NMSA exceeded total liabilities by \$106,262,097.
- NMSA purchased \$8,519,556 in total capital assets greater than \$5,000.
- Of the \$16,709,826 in total current assets, 89% was in the form of cash and cash equivalents.
- The total cost of NMSA programs was \$11,639,137, whereas the total NMSA general revenue was \$8,744,043. Total program revenue was \$5,551,281.

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 are comprised of 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 position presents information on all of NMSA's assets and liabilities, with the difference between the two reported as total net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014**

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. As the development of the Spaceport continues toward completion, NMSA will evolve into a self-supporting enterprise authority of the state, relying exclusively on revenue from its business sectors like space launches, leases, tourism and other events.

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 four governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund (SHARE Fund 87100), the Regional Spaceport District Fund (SHARE Fund 10570) and the Capital Projects Funds (SHARE Fund 20510 and SHARE Fund 89200).

NMSA adopts an annual appropriated budget for its General Fund. The basic governmental fund financial statements can be found on pages 14 and 16 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of NMSA, assets exceeded liabilities by \$106,262,097 at the close of the 2014 fiscal year.

At the end of the 2014 fiscal year, NMSA is able to report positive balances in all categories of net position.

Governmental activities increased NMSA's net position by \$2,403,934.

A net position restatement decreased NMSA's net position by \$725,491.

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014.**

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.

As of the end of the 2014 fiscal year, NMSA's governmental funds reported combined ending fund balances of \$13,976,340, a decrease of \$4,939,427 in comparison with the prior year. The majority of this amount is derived from bonded debt 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 2014 fiscal year, unassigned fund balance of the general fund was \$1,559,558.

During the 2014 fiscal year, the fund balance of NMSA's general fund increased by \$929,104.

Financial Analysis of NMSA as a Whole

Net Position

NMSA's condensed net position changed from Fiscal Year 2013, increasing from \$104.5 million to \$106.2 million, which represented a 2% change. The table below illustrates the condensed statement of net position:

Detail of NMSA's Condensed Net Position as of June 30, 2014 and 2013

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Governmental Activities: | | |
| Assets: | | |
| Current and other assets | \$ 16,709,826 | \$ 23,274,805 |
| Capital and non-current assets | 158,602,620 | 154,774,726 |
| Total assets | \$ 175,312,446 | \$ 178,049,531 |
| Liabilities: | | |
| Current liabilities | \$ 5,793,689 | \$ 7,308,705 |
| Non-current liabilities | 63,256,660 | 66,157,172 |
| Total liabilities | 69,050,349 | 73,465,877 |
| Net position: | | |
| Net investment in capital assets | 92,320,495 | 85,709,387 |
| Restricted - capital projects and debt service | 12,416,782 | 18,285,313 |
| Unrestricted, subsequent year's expenditure | 1,524,820 | 588,954 |
| Total net position | 106,262,097 | 104,583,654 |
| Total liabilities and net position | \$ 175,312,446 | \$ 178,049,531 |

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014**

Statement of Activities

NMSA's change in net position for fiscal year 2014 was an increase of \$1,678,443 (Statement of Activities). Approximately 3% of NMSA's revenue comes from State General Fund Appropriations; the remaining funds are from severance tax bond proceeds and gross receipts bond proceeds, as well as business activity such as site tours, special events, and launches.

Statement of Activities

| As of June 30, | <u>2014</u> | <u>2013</u> |
|---|------------------------------|------------------------------|
| Governmental Activities: | | |
| General revenues: | | |
| State General Fund appropriations, net | \$ 456,200 | \$ 456,200 |
| Gross Receipts Tax | 5,919,873 | 6,258,108 |
| Other revenue | 2,334,799 | 1,074,803 |
| Interest revenue | <u>33,171</u> | <u>37,931</u> |
| Total General Revenues | 8,744,043 | 7,827,042 |
| Program Revenues: | | |
| Transfers - Severance Tax Bond proceeds | <u>5,551,281</u> | <u>9,353,896</u> |
| Total revenues | <u>14,295,324</u> | <u>17,180,938</u> |
| Expenses: | | |
| Spaceport development | 11,639,137 | 16,253,749 |
| Loss on asset disposal | <u>252,253</u> | <u>-</u> |
| Total expenses | <u>11,891,390</u> | <u>16,253,749</u> |
| Increase in net position | 2,403,934 | 927,189 |
| Net position, beginning of year | 104,583,654 | 93,455,701 |
| Restatement | <u>(725,491)</u> | <u>10,200,764</u> |
| Net position, beginning of year restated | <u>103,858,163</u> | <u>103,656,465</u> |
| Net position, end of year | <u>\$ 106,262,097</u> | <u>\$ 104,583,654</u> |

Financial Analysis of NMSA's Funds

Capital Assets and Debt Administration

NMSA had \$92,320,495 invested in capital assets, net of related debt for the year ended June 30, 2014.

**NEW MEXICO SPACEPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014**

In 2009, the New Mexico Finance Authority (NMFA) issued bonds on behalf of NMSA in the amount of \$55,810,000 with associated bond issuance costs of \$837,150 and a premium of \$2,194,732. In 2010, NMFA issued bonds on behalf of NMSA in the amount of \$20,560,000. These bonds were issued to finance Spaceport construction. NMSA continues to pay down the debt and has \$64,540,000 outstanding, and premiums of \$1,617,172.

Budgetary Comparisons

In addition to the MD&A, GASB #34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented as Required Supplementary Information (RSI).

The budgetary comparison schedules should present the original and the final appropriated budgets for the reporting period, as well as the actual inflows, outflows and balances that are stated on the budgetary basis. As required by the Office of the State Auditor in 2 NMAC 2.2, the Statements of Revenues and Expenditures – Budget and Actual are also presented.

The budget to actual statements for the general fund reflect a significant difference between budgeted contractual services and other expenditures from actual amounts. When the budget was prepared, NMSA expected the site to be at full operation during the fiscal year. That did not happen; thus expenditures were lower than expected.

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

2014 Highlights:

- Spaceport Operations Center Fit Out construction complete
- Recertification of FAA spaceport license
- 4 revenue generating events
- 1 vertical launch
- Southern access road Environmental Assessment completed and delivered to the BLM.
- Design of Main Entrance Security Station completed and construction underway
- Art in Public Places sculpture design completed and construction underway
- Design of Gateway Gallery completed and construction underway
- Monthly newsletters sent to the public
- 6 NMSA board meetings open to the public
- 4 Spaceport America Regional Spaceport District Board Meetings open to the public
- 10 presentations at New Mexico conferences, organizations, and educational institutions
- FAA Annual EIS Consulting Parties Meeting
- 6 Legislative hearings

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 Executive Director, New Mexico Spaceport Authority, 901 E. University, Suite 965L, Las Cruces, NM 88001.

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NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2014

| | <u>PRIMARY GOVERNMENT Governmental Activities</u> |
|--|---|
| ASSETS | |
| Cash and cash equivalents | \$ 8,320,280 |
| Restricted cash | 4,986,635 |
| Investment in State General Fund Investment Pool | 1,636,785 |
| Due from other state agencies | 1,759,862 |
| Accounts receivable | <u>6,264</u> |
| Total current assets | 16,709,826 |
| NON-CURRENT ASSETS | |
| Capital assets | 165,339,207 |
| Less accumulated depreciation | <u>(6,736,587)</u> |
| Net capital assets | <u>158,602,620</u> |
| TOTAL ASSETS | <u>\$ 175,312,446</u> |

| | PRIMARY GOVERNMENT |
|--|--------------------------------------|
| | Governmental - Activities |
| LIABILITIES | |
| Accounts payable | \$ 539,098 |
| Accrued payroll and other liabilities | 19,425 |
| Due to other state agencies | 8,919 |
| Cash overdraft | 126,143 |
| Other | 2,039,901 |
| Bond premium | 115,512 |
| Compensated absences payable due within one year | 34,738 |
| Interest payable | 124,953 |
| Current portion of long-term obligations | <u>2,785,000</u> |
| Total current liabilities | <u>5,793,689</u> |
| Long-term obligations | |
| Non-current portion of long-term obligations | 61,755,000 |
| Non-current portion of bond premium | <u>1,501,660</u> |
| Total liabilities | <u>69,050,349</u> |
| NET POSITION | |
| Net investment in capital assets | 92,320,495 |
| Restricted - capital projects and debt service | 12,416,782 |
| Unrestricted - subsequent years' expenditure | <u>1,524,820</u> |
| Total net position | <u>106,262,097</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 175,312,446</u> |

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

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

| | PRIMARY GOVERNMENT |
|---|------------------------------------|
| | Governmental Activities |
| PROGRAM EXPENSES | |
| Spaceport development | \$ 11,639,137 |
| Total expenses | 11,639,137 |
| PROGRAM REVENUE | |
| Severance Tax Bond proceeds | 5,551,281 |
| Net program revenue (expense) | (6,087,856) |
| GENERAL REVENUES (EXPENSES) | |
| Transfers - State General Fund appropriation | 456,200 |
| Transfer - other | 3,700 |
| Interest revenue | 33,171 |
| Gross Receipts Tax | 5,919,873 |
| Loss on asset disposal | (252,253) |
| Other | 2,331,099 |
| Total general revenues | 8,491,790 |
| CHANGE IN NET POSITION | 2,403,934 |
| NET POSITION, BEGINNING OF YEAR | 104,583,654 |
| RESTATEMENT | (725,491) |
| NET POSITION, BEGINNING OF YEAR RESTATED | 103,858,163 |
| NET POSITION, END OF YEAR | \$ 106,262,097 |

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

NEW MEXICO SPACEPORT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

| | Major Funds | | | | Total Governmental Funds |
|--|--------------------------|---|--------------------------------------|--------------------------------------|--------------------------------|
| | 87100 General Fund | 10570 Regional Spaceport District Fund | 20510 Capital Projects Fund | 89200 Capital Projects Fund | |
| ASSETS | | | | | |
| Investment In State General Fund | | | | | |
| Investment Pool | \$ 1,636,399 | \$ - | \$ 386 | \$ - | \$ 1,636,785 |
| Other cash - held at Trustee | - | 8,320,280 | - | - | 8,320,280 |
| Restricted cash | - | 4,986,635 | - | - | 4,986,635 |
| Accounts receivable | 6,264 | - | - | - | 6,264 |
| Due from other state agencies | - | - | - | 1,759,862 | 1,759,862 |
| TOTAL ASSETS | \$ 1,642,663 | \$ 13,306,915 | \$ 386 | \$ 1,759,862 | \$ 16,709,826 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 49,860 | \$ 330,817 | \$ - | \$ 158,421 | \$ 539,098 |
| Accrued payroll | 19,425 | - | - | - | 19,425 |
| Due to other state agencies | 8,919 | - | - | - | 8,919 |
| Cash overdraft | - | - | - | 126,143 | 126,143 |
| Other | 4,901 | 559,702 | - | 1,475,298 | 2,039,901 |
| Total liabilities | 83,105 | 890,519 | - | 1,759,862 | 2,733,486 |
| FUND BALANCES | | | | | |
| Restricted | - | 12,416,396 | 386 | - | 12,416,782 |
| Unassigned | 1,559,558 | - | - | - | 1,559,558 |
| Total fund balances | 1,559,558 | 12,416,396 | 386 | - | 13,976,340 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,642,663 | \$ 13,306,915 | \$ 386 | \$ 1,759,862 | \$ 16,709,826 |

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 POSITION
June 30, 2014**

| | |
|--|----------------------|
| Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet) | \$ 13,976,340 |
|--|----------------------|

Amounts reported for governmental activities in the Statement of Net Position 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 | 165,339,207 |
| Accumulated depreciation | <u>(6,736,587)</u> |
| Total capital assets | <u>158,602,620</u> |

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, and asset related to bond issue cost, at year end consist of:

| | |
|--|-----------------|
| Bonds payable | (64,540,000) |
| Bond premium (related to bond issuance), net of \$577,561 amortization | (1,617,172) |
| Accrued interest payable related to Bonds | (124,953) |
| Compensated absences payable | <u>(34,738)</u> |

| | |
|--|------------------------------|
| Net position of governmental activities (Statement of Net Position) | \$ <u>106,262,097</u> |
|--|------------------------------|

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, 2014

| | Major Funds | | | | Total Governmental Funds |
|--|--------------------------|---|--------------------------------------|--------------------------------------|--------------------------------|
| | 87100 General Fund | 10570 Regional Spaceport District Fund | 20510 Capital Projects Fund | 89200 Capital Projects Fund | |
| REVENUES | | | | | |
| Gross Receipts Tax | \$ - | \$ 5,919,873 | \$ - | \$ - | \$ 5,919,873 |
| Interest on deposits | - | 33,171 | - | - | 33,171 |
| Rental revenue | 1,055,957 | - | - | - | 1,055,957 |
| Tours and launch revenue | 1,275,142 | - | - | - | 1,275,142 |
| Total revenues | <u>2,331,099</u> | <u>5,953,044</u> | <u>-</u> | <u>-</u> | <u>8,284,143</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Personal services and benefits | 816,560 | - | - | - | 816,560 |
| Contractual services | 227,046 | 2,907,567 | - | - | 3,134,613 |
| Other | 812,522 | 95,300 | - | 208,615 | 1,116,437 |
| Capital Outlay | 5,767 | 3,171,123 | - | 5,342,666 | 8,519,556 |
| Debt Service: | | | | | |
| Principal | - | 2,710,000 | - | - | 2,710,000 |
| Interest and other charges | - | 2,937,585 | - | - | 2,937,585 |
| Total expenditures | <u>1,861,895</u> | <u>11,821,575</u> | <u>-</u> | <u>5,551,281</u> | <u>19,234,751</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>469,204</u> | <u>(5,868,531)</u> | <u>-</u> | <u>(5,551,281)</u> | <u>(10,950,608)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfer in - other | 3,700 | - | - | - | 3,700 |
| Transfers in - State General Fund appropriation | 456,200 | - | - | - | 456,200 |
| Bond proceeds - Severance Tax Bond | - | - | - | 5,551,281 | 5,551,281 |
| Net other financing sources | <u>459,900</u> | <u>-</u> | <u>-</u> | <u>5,551,281</u> | <u>6,011,181</u> |
| NET CHANGE IN FUND BALANCES | 929,104 | (5,868,531) | - | - | (4,939,427) |
| FUND BALANCES, BEGINNING OF YEAR | 630,454 | 18,284,927 | 386 | - | 18,915,767 |
| FUND BALANCES, END OF YEAR | <u>\$ 1,559,558</u> | <u>\$ 12,416,396</u> | <u>\$ 386</u> | <u>\$ -</u> | <u>\$ 13,976,340</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 (CONTINUED)
Year Ended June 30, 2014

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 | 8,519,556 |
| Depreciation expense | <u>(3,762,145)</u> |
| Excess of capital outlay over depreciation expense | 4,757,411 |

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 Position. The change in accrued interest from prior year is:

5,929

The Statement of Activities reports the loss on disposal of Capital Assets while the Governmental Funds report the proceeds (if received).

The reconciling amount is the difference:

(252,253)

Change in net position of governmental activities
(Statement of Activities)

\$ 2,403,934

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

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUND -
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2014

| GENERAL FUND - OPERATING FUND (87100) | | | | |
|--|----------------------------|----------------------------|------------------------------|-------------------------------------|
| | Budgeted Amounts | | Actual | Variance From |
| | Original | Final | Amounts (Budgetary Basis) | Final Budget Positive (Negative) |
| REVENUES | | | | |
| State General Fund appropriation | \$ 456,200 | \$ 456,200 | \$ 456,200 | \$ - |
| Other state funds | - | - | - | - |
| Other | 3,933,500 | 3,933,500 | 2,331,099 | (1,602,401) |
| Other financing sources | 3,700 | 3,700 | 3,700 | - |
| Fund Balance rebudgeted | - | - | - | - |
| TOTAL REVENUES | <u>\$ 4,393,400</u> | <u>\$ 4,393,400</u> | <u>2,790,999</u> | <u>\$ (1,602,401)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Personal services and benefits | \$ 799,900 | \$ 827,900 | 816,560 | \$ 11,340 |
| Contractual services | 2,252,500 | 2,224,500 | 227,046 | 1,997,454 |
| Other | 1,341,000 | 1,341,000 | 818,289 | 522,711 |
| TOTAL EXPENDITURES | <u>\$ 4,393,400</u> | <u>\$ 4,393,400</u> | <u>1,861,895</u> | <u>\$ 2,531,505</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES | | | 929,104 | |
| TIMING DIFFERENCE DUE TO ACCOUNTS PAYABLE | | | - | |
| NET CHANGE IN FUND BALANCE (GAAP BASIS) | | | <u>\$ 929,104</u> | |

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

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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. 14 (as amended by GASB 39 and 61). 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."

The authority is part of the primary government of the State of New Mexico and its financial data is included with the financial data in the State of New Mexico's Comprehensive Annual Financial Report. These financial statements present financial information that is attributable to the Authority and does not purport to present the financial position of the State of New Mexico.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

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. The Spaceport Authority is not considered to be a component unit of the district as described by GASB 14 (as amended by GASB 39 and 61). 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 NMSA issued bonds (through the New Mexico Finance Authority) in FY 2010 and 2011, which are financed through gross receipt taxes from Dona Ana County and Sierra County. The gross receipt tax activity is accounted for in fund 10570, Regional Spaceport District Fund.

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.

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 the 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 the statewide Comprehensive Annual Financial Report. In accordance with the criteria set forth in GASBS 14 and 39 for determining component units, NMSA does not have any component units.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Position, the governmental activities 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. NMSA has only governmental types of activities. The government-wide financial statements (i.e., the statement of net position 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 and operate 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.

The net cost (by function) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, incidental sales, 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.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. NMSA considers all funds to be significant and, therefore, they are all reflected as major funds in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

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 accrual 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 2014.

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, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NMSA uses the following funds:

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 through earned revenue from sales, rentals, launches, and incidental amounts from the State of New Mexico General Fund.

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 includes bonds issued by the New Mexico Finance Authority on behalf of NMSA 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.

Spaceport Capital Projects Fund. The Severance Tax Bonds Capital Projects Fund (SHARE Fund 89200) was established at the beginning of FY 2012 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, 2014

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.

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:

- o 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.
- o 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.
- o 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.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- o 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.
- o 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 Notes 3 and 4 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 | 40 years |
| Equipment and furniture | 5 to 10 years |
| Vehicles | 10 years |
| Improvements other than building | 20 - 50 years |

NMSA had no internal software development in the current year.

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:

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General Fund (Fund 87100) - 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 gross receipts tax bond proceeds (debt) and gross receipts tax used to service bonds issued by NMFA on behalf of NMSA in July 2009. In 2010, the fund also included capital project expenditures financed through 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 15 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 then assigned and finally unassigned.

Revenues, Expenditures and Expenses

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Premiums and Discounts of Bonds are amortized over the life of the Bond.

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 position.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Revenues

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

Use of Restricted Resources

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is NMSA'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 NMSA's policy to spend committed resources first.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. NMSA did not have any items that qualified for reporting in this category as of June 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. NMSA did not have any items that were required to be reported in this category as of June 30, 2014.

Net Position

In June 2011, GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), effective for NMSA's fiscal year beginning July 1, 2012. GASB 63 modifies the presentation of deferred inflows and deferred outflows in the financial statements; it also limits the use of the term "deferred." Implementation of GASB 63 had no effect on NMSA's net position or changes in net position for the fiscal year ended June 30, 2014.

The government-wide statements utilize a net position presentation categorized as follows:

Net Investment in capital assets - This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted net position - For the government-wide statement of net position, net position is reported as restricted when constraints placed on net position used are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category reflects net position of NMSA not restricted for any project or other purpose.

NOTE 3. STATE GENERAL FUND INVESTMENT POOL

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of DFA undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating any of the historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences will be reported in the State General Fund.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

Amounts held by NMSA are verified through periodic SHARE queries and reconciliations by fund.

NOTE 4. CASH (INVESTMENT IN STATE GENERAL FUND INVESTMENT POOL)

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

| Fund | SHARE Fund | Investment (Cash) | Fair Value June 30, 2014 |
|-------------------------------------|---------------|---|-----------------------------|
| General Fund | 87100 | NM STO General Fund Investment Pool | \$ 1,636,399 |
| Regional Spaceport District Fund | 10570 | Held at Trustee – New Mexico Finance Authority | \$ 8,320,280 |
| Regional Spaceport District Fund | 10570 | Restricted Cash | \$ 4,986,635 |
| Capital Projects Fund | 20510 | NM STO General Fund Investment Pool | \$ 386 |
| Capital Projects Fund | 89200 | NM STO General Fund Investment Pool | \$ (126,143) |

The Capital Projects Fund cash overdraft of \$126,143 was recorded as a liability by NMSA.

In order to mitigate the risk that NMSA's cash balances would be misstated, NMSA verifies the amounts through periodic SHARE queries and reconciliations by fund.

Interest Rate Risk

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

Credit Risk

The New Mexico State Treasurer'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, 2014.

NOTE 5. 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

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5. COMPENSATED ABSENCES (CONTINUED)

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 \$34,738.

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

| <u>Balance</u> | | | <u>Balance</u> | <u>Amounts</u> |
|----------------------|-----------------|-------------------|----------------------|-----------------|
| <u>June 30, 2013</u> | <u>Increase</u> | <u>(Decrease)</u> | <u>June 30, 2014</u> | <u>Due</u> |
| | | | | <u>Within</u> |
| | | | | <u>One Year</u> |
| \$ 41,500 | \$ 39,460 | \$ (46,222) | \$ 34,738 | \$ 34,738 |

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

NOTE 6. CAPITAL ASSETS

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.

A summary of changes in capital assets follows:

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6. CAPITAL ASSETS (CONTINUED)

| | Balance June 30, 2013 | Reclassifications | Adjusted Balance June 30, 2014 | Additions | CIP reclass | Deletions, Including Inventory Exempt | Balance June 30, 2014 |
|---------------------------------------|--------------------------|-------------------|--------------------------------------|---------------------|----------------|--|--------------------------|
| Depreciable assets: | | | | | | | |
| Buildings | \$ 54,714,329 | \$ 4,562,681 | \$ 59,277,010 | \$ 3,471,315 | \$ 427,991 | \$ - | \$ 63,176,316 |
| Improvements other than buildings | 74,984,268 | (4,713,819) | 70,250,449 | 1,880,329 | 11,070,417 | - | 83,201,195 |
| Vehicles | 1,234,737 | - | 1,234,737 | 438,727 | - | - | 1,673,464 |
| Equipment and furniture | 9,817,545 | (800,473) | 9,017,072 | 758,674 | - | - | 9,775,746 |
| Non-depreciable asset: | | | | | | | |
| Construction in process | 16,341,025 | 951,611 | 17,292,636 | 1,970,511 | (11,498,408) | (252,253) | 7,512,466 |
| Total capital assets | 157,071,904 | - | 157,071,904 | 8,519,556 | - | (252,253) | 165,339,207 |
| Accumulated depreciation: | | | | | | | |
| Buildings | (1,099,243) | - | (1,099,243) | (1,514,654) | - | - | (2,613,897) |
| Improvements other than buildings | (1,804,105) | - | (1,804,105) | (1,904,153) | - | - | (3,708,258) |
| Vehicles | (34,686) | - | (34,686) | (152,722) | - | - | (187,418) |
| Equipment and furniture | (36,398) | - | (36,398) | (190,618) | - | - | (227,014) |
| Total accumulated depreciation | (2,974,442) | - | (2,974,442) | (3,762,145) | - | - | (6,736,587) |
| Net capital assets | \$154,097,462 | \$ - | \$ 154,097,462 | \$ 4,757,411 | \$ - | \$ (252,253) | \$158,602,620 |

Depreciation expense for the fiscal year was \$3,762,145 and was charged to Spaceport Development.

NOTE 7. 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. 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, 2014, 2013 and 2012 were \$90,945, \$63,379 and \$55,618, respectively, which equal the amount of the required contributions for each fiscal year.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. 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 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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

**NOTE 8. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3,4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the Legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

NMSA's contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$10,979, \$8,406 and \$7,583, respectively, which equal the required contributions for each year.

NOTE 9. 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.

As of the financial statement date NMSA had one asserted claim in process. It is considered unlikely that NMSA will owe anything related to consequential damages or attorneys fees.

NMSA is subject to legal proceedings, claims, and liabilities, which arise in the ordinary course of its business. In the opinion of NMSA's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse affect on the financial position or results of operations of NMSA.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10. TRANSFERS

During the fiscal year, NMSA received funds that were recorded as "Other Financing Sources" in the financial records. These amounts include \$456,200 appropriated to Department of Finance and Administration (DFA) for distribution to NMSA for the State General Fund appropriation and \$5,551,281 in Severance Tax Reimbursements from DFA – State Board of Finance.

| Fund Type | SHARE Agency/Fund | Transfers In | Transfers Out |
|---------------------------------|----------------------|---------------------|---------------|
| (1) General Fund 87100 | 34100-62000 | \$ 456,200 | \$ - |
| (2) General Fund 87100 | 34100-62000 | 3,700 | - |
| (4) Capital Projects Fund 89200 | 34100-89200 | <u>5,551,281</u> | <u>-</u> |
| Total | | <u>\$ 6,011,181</u> | <u>\$ -</u> |

NOTE 11. RESTATEMENT

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued in June 2011 and effective for periods beginning after December 15, 2012. This statement redefines certain transactions that were previously reported as Assets and Liabilities and requires that they now be reported in new financial statement components as Deferred Outflows and Deferred Inflows. In some cases, items previously capitalized and amortized, such as debt issuance costs, are now expensed when incurred. In these instances, a prior period adjustment has been recorded as necessary. This guidance also requires that the use of the term "Deferred" be restricted to instances referring to Deferred Outflows and Deferred Inflows, which affects how we refer to items previously reported as deferred revenue. NMSA implemented GASB 65 during the current fiscal year. As a result, the remaining unamortized debt issuance costs in the amount of \$725,491, which were previously recognized as assets in the Statement of Net Position, were removed through a restatement of beginning Net Position:

| | |
|---|-----------------------|
| Net position, beginning of year | \$ 104,583,654 |
| Restatement - per new accounting pronouncement GASB 65, bond issuance costs are written off rather than amortized | <u>(725,491)</u> |
| Net position, beginning of year, restated | <u>\$ 103,858,163</u> |

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 12. DUE TO/FROM OTHER STATE AGENCIES

| NMSA Fund | Purpose | Agency Name | Agency Fund | Due From | Due To |
|--------------|---------------------|----------------|----------------|---------------------|-----------------|
| 87100 | Insurance | GSD | 36503 | \$ - | \$ 558 |
| 87100 | Insurance | GSD | 36503 | - | 266 |
| 87100 | Sublease payments | SLO | 77700 | - | 920 |
| 87100 | Sublease payments | SLO | 77700 | - | 7,175 |
| 89200 | Severance tax draws | DFA | 65300 | <u>1,759,862</u> | - |
| Total | | | | <u>\$ 1,759,862</u> | <u>\$ 8,919</u> |

NOTE 13. 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 14. 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.

Interest expense for the current fiscal year was \$2,937,585. The current portion of long-term debt is \$2,785,000.

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 14. LONG-TERM DEBT (CONTINUED)

The changes in long-term balances for fiscal year 2014 are as follows:

| | <u>Balance</u> <u>June 30, 2013</u> | <u>Increase</u> | <u>(Decrease)</u> | <u>Balance</u> <u>June 30, 2014</u> | <u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u> |
|------------------------|--|-----------------|-----------------------|--|--|
| 2009 Series C | \$ 47,895,000 | \$ - | \$ (2,100,000) | \$ 45,795,000 | \$ 2,165,000 |
| Issuance premium | <u>1,732,684</u> | <u>-</u> | <u>(115,512)</u> | <u>1,617,172</u> | <u>-</u> |
| 2009 Series C Total | <u>\$ 49,627,684</u> | <u>\$ -</u> | <u>\$ (2,215,512)</u> | <u>\$ 47,412,172</u> | <u>\$ 2,165,000</u> |
| 2010 Series | <u>\$ 19,355,000</u> | <u>\$ -</u> | <u>\$ (610,000)</u> | <u>\$ 18,745,000</u> | <u>\$ 620,000</u> |

Maturities of the bond issuances for the next five years and thereafter as of June 30, 2014 are as follows:

| | <u>Balance</u> <u>Principal</u> | <u>Interest</u> | <u>Balance</u> <u>Total</u> |
|----------------|------------------------------------|----------------------|--------------------------------|
| 2009 Series C: | | | |
| 2015 | \$ 2,165,000 | \$ 2,207,836 | \$ 4,372,836 |
| 2016 | 2,275,000 | 2,099,586 | 4,374,586 |
| 2017 | 2,380,000 | 1,993,586 | 4,373,586 |
| 2018 | 2,495,000 | 1,879,836 | 4,374,836 |
| 2019 | 2,615,000 | 1,761,586 | 4,376,586 |
| 2020 - 2024 | 14,975,000 | 6,898,013 | 21,873,013 |
| 2025 - 2029 | <u>18,890,000</u> | <u>2,977,538</u> | <u>21,867,538</u> |
| Total | <u>\$ 45,795,000</u> | <u>\$ 19,817,981</u> | <u>\$ 65,612,981</u> |

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 14. LONG-TERM DEBT (CONTINUED)

| | <u>Balance Principal</u> | <u>Interest</u> | <u>Balance Total</u> |
|----------------|------------------------------|---------------------|--------------------------|
| 2010 Series C: | | | |
| 2015 | \$ 620,000 | \$ 659,452 | \$ 1,279,452 |
| 2016 | 625,000 | 651,764 | 1,276,764 |
| 2017 | 640,000 | 641,951 | 1,281,951 |
| 2018 | 650,000 | 629,343 | 1,279,343 |
| 2019 | 665,000 | 614,328 | 1,279,328 |
| 2020 - 2024 | 3,660,000 | 2,266,507 | 5,926,507 |
| 2025 - 2029 | <u>11,885,000</u> | <u>2,066,844</u> | <u>13,951,844</u> |
| Total | <u>\$ 18,745,000</u> | <u>\$ 7,530,189</u> | <u>\$ 26,275,189</u> |

NOTE 15. 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, 2014 follows:

General Fund - 87100

Fund balances:

 Unrestricted:

 Unassigned \$ 1,559,558

Debt Service Fund - 10570

Fund balances:

 Restricted for:

 GRT Bond Construction Expenditures, 2009 Series C Public Projects
 and GRT Bond Construction Expenditures, 2010 Series Public Projects 12,416,396

Capital Projects Fund - 20510

Fund balances:

 Restricted for capital projects 386

Total fund balances: \$ 13,976,340

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 16. RENTAL INCOME

On January 1, 2007, NMSA entered into a lease agreement with Virgin Galactic for the use of the Terminal Hangar Facility and Runway. Rental payments started January of 2013 as follows: first 5 years: \$1,000,000 per year, payable in equal monthly installments due on the first day of each calendar month. Remaining 15 years: monthly facilities rent calculated as monthly amortization of the remaining final Virgin facilities cost (net of payments over the first 5 years) based on a 20 year amortization. Virgin Galactic also pays a monthly amount for ground rent. The amount for the first five years is equal to \$30,000 per year payable monthly. This amount will increase based on CPI for the remaining 15 years of the agreement. Space X will pay rent in the amount of \$3,651 per month for three years. Space X has two one-year extension options.

Year Ending June 30,

| | |
|---------------------|--------------------------|
| 2015 | \$ 1,073,812 |
| 2016 | 1,073,812 |
| 2017 | 1,048,255 |
| 2018 | 3,081,975 |
| 2019 | 3,081,975 |
| 2020 and thereafter | <u>46,229,622</u> |
| Total | <u>\$ 55,589,451</u> |

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, 2014, 2013 and 2012, there were no settlements that exceeded insurance coverage.

NOTE 18. NEW PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of

NEW MEXICO SPACEPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 18. NEW PRONOUNCEMENTS (CONTINUED)

accountability and inter-period equity, and creating additional transparency. This Statement will be effective for the Department in fiscal year 2015. GASB No. 68 will require NMSA to record its proportionate share of the unfunded pension plan liabilities in the New Mexico State Retirement System and other plans. Although the amount of the liability is unknown, it is presumed to be material. GASBS No. 68 will require the Department to record its proportionate share of the unfunded pension plan liabilities in the New Mexico State Retirement System and other plans. Although the amount of the liability is unknown, it is presumed to be material.

In January 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement will be effective for NMSA in fiscal year 2015. NMSA is in the process of evaluating the impact of this pronouncement on its financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combination* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement will be effective for NMSA in fiscal year 2015. NMSA is in the process of evaluating the impact (if any) of this pronouncement on its financial statements.

NOTE 19. LITIGATION

At June 30, 2014, NMSA was party to a claim. The claim was settled after June 30, 2014. The amount accrued for this settlement is found in fund 10570 (\$559,702) and fund 89200 (\$1,475,298). The entire amount was paid by NMSA in August 2014.

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, 2014

SPACEPORT CAPITAL PROJECTS FUND (20510)

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance From Final Budget Positive (Negative) |
|--|------------------|-------------|--|--|
| | Original | Final | | |
| REVENUES | | | | |
| State General Fund appropriation \$ | - | \$ - | \$ - | \$ - |
| Other financing sources | - | - | - | - |
| Fund balance rebudgeted | - | - | - | - |
| TOTAL REVENUES | \$ - | \$ - | - | \$ - |
| EXPENDITURES | | | | |
| Current: | | | | |
| Contractual Services \$ | - | \$ - | - | \$ - |
| Other | - | - | - | - |
| TOTAL EXPENDITURES | \$ - | \$ - | - | \$ - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES | | | | |
| - | | | | |
| TIMING DIFFERENCE DUE TO ACCOUNTS PAYABLE | | | | |
| - | | | | |
| NET CHANGE IN FUND BALANCE GAAP BASIS | | | | |
| | | | \$ - | |

NEW MEXICO SPACEPORT AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2014

| | SPACEPORT CAPITAL PROJECTS FUND (89200) | | | |
|--|--|-----------------------------|------------------------------|-------------------------------------|
| | Budgeted Amounts | | Actual | Variance From |
| | Original | Final | Amounts (Budgetary Basis) | Final Budget Positive (Negative) |
| REVENUES | | | | |
| State General Fund appropriation \$ | - | - | - | - |
| Other financing sources | 17,209,310 | 17,209,310 | 5,551,281 | (11,658,029) |
| Fund balance rebudgeted | - | - | - | - |
| TOTAL REVENUES | <u>\$ 17,209,310</u> | <u>\$ 17,209,310</u> | <u>\$ 5,551,281</u> | <u>\$ (11,658,029)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Contractual Services | - | - | - | - |
| Other * | 17,209,310 | 17,209,310 | 4,075,983 | 13,133,327 |
| TOTAL EXPENDITURES | <u>\$ 17,209,310</u> | <u>\$ 17,209,310</u> | <u>4,075,983</u> | <u>\$ 13,133,327</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES | | | 1,475,298 | |
| TIMING DIFFERENCE DUE TO ACCOUNTS PAYABLE | | | <u>(1,475,298)</u> | |
| NET CHANGE IN FUND BALANCE GAAP BASIS | | | <u>\$ -</u> | |

* For financial statement presentation purposes capital outlay is classified as other.

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NEW MEXICO SPACEPORT AUTHORITY
SUPPLEMENTAL SCHEDULE OF SEVERANCE TAX APPROPRIATIONS
June 30, 2014

| Series | Project Number | Project Description | Amount Appropriated | Amount Reverted |
|----------------|----------------|--|----------------------|-----------------|
| STB07SD/SA | A/D06-2260 | Laws of 2007, Chapter 42, Section 100, Paragraph C-1 | \$ 33,000,000 | \$ - |
| STB08SC | C08-4780 | Laws of 2008, Chapter 92, Section 76, Paragraph C | 7,500,000 | - |
| STB10A/09D | A/D06-2260 | Laws of 2007, Chapter 42, Section 100, Paragraph C-3 | 34,000,000 | - |
| STB13A 13-1812 | A131812 | Laws of 2007, Chapter 42, Section 100, Paragraph C-3 | <u>3,000,000</u> | <u>-</u> |
| | | | <u>\$ 77,500,000</u> | <u>\$ -</u> |

| <u>Art in Public Places</u> | <u>Amount Available</u> | <u>Expenditures Reported Prior Years</u> | <u>Interest</u> | <u>Expenditures Reported Current Year</u> | <u>Authorized Advance Amounts Received (Deferred Revenue)</u> | <u>June 30, 2014 Balance Available</u> |
|-----------------------------|-------------------------|--|-----------------|---|---|--|
| \$ 200,000 | \$ 32,800,000 | \$ 31,383,114 | \$ (343) | \$ 1,417,229 | \$ - | \$ - |
| - | 7,500,000 | 2,628,211 | - | - | - | 4,871,789 |
| - | 34,000,000 | 28,534,887 | - | 4,130,442 | - | 1,334,671 |
| - | <u>3,000,000</u> | <u>-</u> | <u>-</u> | <u>3,610</u> | <u>-</u> | <u>2,996,390</u> |
| <u>\$ 200,000</u> | <u>\$ 77,300,000</u> | <u>\$ 62,546,212</u> | <u>\$ (343)</u> | <u>\$ 5,551,281</u> | <u>\$ -</u> | <u>\$ 9,202,850</u> |

NEW MEXICO SPACEPORT AUTHORITY
SUPPLEMENTAL SCHEDULE OF CASH ACCOUNTS INCLUDING INVESTMENT
June 30, 2014

| Name of Depository | | Fund Type | SHARE System Fund No. | |
|--------------------|--|------------------|-----------------------|-----|
| NM State Treasurer | General Fund | General | 87100 | Sta |
| NM State Treasurer | Regional Spaceport District Fund (Held at Trustee - New Mexico Finance Authority) | Debt Service | 10570 | Sta |
| NM State Treasurer | Capital Projects Fund | Capital Projects | 20510 | Sta |
| NM State Treasurer | Capital Projects Fund | Capital Projects | 89200 | Sta |

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



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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, the budgetary comparisons of the general fund of the New Mexico Spaceport Authority (NMSA) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise NMSA's basic financial statements, and individual funds and related budgetary comparisons of NMSA, presented as supplementary information, and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NMSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of NMSA's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency (finding 2013-001).

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.

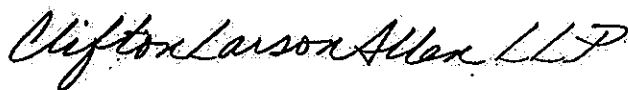
NMSA's Response to Findings

NMSA's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. NMSA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering NMSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP



Albuquerque, New Mexico
December 12, 2014

NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014

Section I – Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the New Mexico Spaceport Authority (NMSA).
2. One significant deficiency was disclosed during the audit of the financial statements.
3. There were no instances of non-compliance related to the financial statements.

NEW MEXICO SPACEPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014

Section II – Financial Statement Findings

2013-001 Capital Asset Reconciliation (Significant Deficiency)

Condition: During our audit test work over capital assets, we were informed that capital assets required reclassification between categories, as well as items removed from the listing as they did not meet the criteria for capitalization.

Criteria: GASB 34.119-120 indicates that governments should provide detail in the notes to the financial statements about capital assets of the primary government reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets as well as between those associated with governmental activities and those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. Additionally, sound accounting practices require that subsidiary capital asset records of the agency agree to the general ledger and reported appropriately in financial statements.

Cause: Lack of oversight related to financial reporting and subsidiary record reconciliation process.

Effect: Classification errors in capital asset categories could lead to misstatements in calculated depreciation amounts, as well as inaccurate financial reporting.

Recommendation: We recommend that management review capital asset listing, general ledger amounts, as well as amounts reported in the financial statements to ensure agreement and proper and timely recording/reporting. We also recommend that management compare contracts to capital asset listing to ensure completeness of capital asset records.

Agency Response: NMSA managed the majority of the construction of its world class facility, including over \$165,000,000 in capitalized assets, with fewer than 7 agency staff members. The capitalization project was extremely complex due to the nature and magnitude of the Spaceport which included planning, architecture, buildings, water treatment, an electric substation, wells and internal roads. Besides those seemingly straightforward assets, we also dealt with archaeology, communications, exhibits, media and show content. In August 2013, we became more structured in our accounting and management positions, hiring additional in-house staff as opposed to prior contracted accounting/management positions or past reliance on administrative support from EDD. We accept this finding and pledge to strengthen our agency internal controls over large and complex categories such as Capital Assets.

NEW MEXICO SPACEPORT AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2014

Section II – Financial Statement Findings

2013-001 Capital Asset Reconciliation (Material Weakness) – Repeated and Modified

Condition: During our audit testwork over capital assets, we identified a material prior period restatement in order to reconcile internally tracked balances with audited financial statements. While NMSA had been properly tracking capital assets on an ongoing basis, NMSA had not accounted for all amounts subject to capitalization. A full reconciliation of capital expenditures was not completed until November 2013.

2013-002 Late Submission of the IPA Recommendation - Resolved

Condition: Per NMAC 2.2.2.8(G)(6)(c), NMSA's IPA recommendation form and contract were due to the Office of the State Auditor (OSA) by June 1, 2013. The IPA recommendation form and contract were not submitted to the OSA until June 27, 2013.

**NEW MEXICO SPACEPORT AUTHORITY
EXIT CONFERENCE
June 30, 2014**

An exit conference was held with NMSA on December 12, 2014, at NMSA's satellite office in Albuquerque, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the release of the financial statements by the State Auditor. In attendance were:

NEW MEXICO SPACEPORT AUTHORITY

Christine Anderson, Executive Director, New Mexico Spaceport Authority
Doreen Sieburg, Director of Finance and Administration, New Mexico Spaceport Authority (via phone)
Jerry Stagner, Board Member
Belinda Lucero, Administrative Services Manager, New Mexico Spaceport Authority (via phone)

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Principal
Jennifer Cavanaugh, CPA, Engagement Director

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.

