

**NEW MEXICO SPACEPORT AUTHORITY  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017**



**NEW MEXICO SPACEPORT AUTHORITY**  
**YEAR ENDED JUNE 30, 2017**

<b>Table of Contents</b>	
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	4
<b>FINANCIAL STATEMENTS</b> .....	11
<b>STATEMENT OF NET POSITION</b> .....	12
<b>STATEMENT OF ACTIVITIES</b> .....	13
<b>BALANCE SHEET – GOVERNMENTAL FUNDS</b> .....	14
<b>RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION</b> .....	15
<b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS</b> .....	16
<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES</b> .....	17
<b>STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND –</b> .....	18
<b>BUDGET AND ACTUAL (BUDGETARY BASIS)</b> .....	18
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	19
<b>SUPPLEMENTARY INFORMATION (SI)</b> .....	51
<b>AUDITOR'S REPORT ON INTERNAL CONTROLS</b> .....	55
<b>SCHEDULE OF FINDINGS AND RESPONSES</b> .....	57
<b>EXIT CONFERENCE</b> .....	62

**NEW MEXICO SPACEPORT AUTHORITY**

**OFFICIAL ROSTER**

**AS OF JUNE 30, 2017**

**Board Members – New Mexico Spaceport Authority**

Rick Holdridge, Chairman

John Sanchez, (ex officio) Lt. Governor

Davin Lopez, Member

Rebecca Latham, Member

Nathan LaFont, Member

Laura Conniff, Member

Michelle Coons, Member

Daniel Hicks, Executive Director / CEO

**New Mexico Spaceport Authority Management**

Daniel Hicks, Executive Director / CEO

Zach De Gregorio, Chief Financial Officer

Melissa Kemper Force, General Counsel

Dr. Bill Gutman, VP Aerospace Operations

Chris Lopez, VP Site Operations

## INDEPENDENT AUDITOR'S REPORT

To Board of Directors  
New Mexico Spaceport Authority  
Las Cruces, New Mexico  
And  
Mr. Timothy Keller, New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison for the general fund of the New Mexico Spaceport Authority's ("the Spaceport") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise of Spaceport's basic financial statements 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 misstatement, 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 the Spaceport, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements of Spaceport are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the respective budgetary comparison of the State of New Mexico that is attributable to the transactions of Spaceport. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2017, 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.

As discussed in Note 9 to the financial statements, the beginning balance of net position has been restated due to unrecorded gross receipt tax receivable in the prior years. The restatement resulted in an increase of the net position by \$927,629. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming that the Spaceport will continue as a going concern. As discussed in Note 20 to the financial statements, the Spaceport will not be receiving funding to continue future operation. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 4-10 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 the financial statements, that collectively comprise the Spaceport's basic financial statements. 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 November 1, 2017 on our consideration of the Spaceport'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 Spaceport's internal control over financial reporting and compliance.



Albuquerque, New Mexico  
November 1, 2017

## NEW MEXICO SPACEPORT AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2017

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, 2017.

### **Authority Overview**

NMSA is charged with developing and operating the world's first purpose-built commercial spaceport. The spaceport, Spaceport America, is situated on 18,000 acres of state land in a remote area of southern New Mexico. Spaceport America's unique location in New Mexico gives it several technical advantages over any other inland spaceport in the United States:

- **Great weather.** Spaceport America enjoys 340+ days of sunshine year round, which is contrasted by the storms experienced at the coastal spaceports.
- **High elevation.** Launches from Spaceport America start almost a mile above sea level. This translates to significant fuel savings to send launch vehicles to space.
- **No damage from salt air corrosion.** Infrastructure at Spaceport America has a much longer life span than investments made at coastal spaceports, as the salt air corrosion requires additional maintenance.
- **Low population density.** Launching space vehicles requires numerous safety precautions for nearby residents. Because of the low population density around Spaceport America, launch operations do not face the same challenges they would in more populated areas.
- **Remote location and 24/7 security.** Spaceport America provides 24/7 armed guards, fire response teams, and medical technicians. The rapid response in a remote location gives launch providers support while offering a high level of privacy.
- **6,000 sq mi of restricted airspace.** The most unique asset of Spaceport America is access to restricted airspace. Spaceport America is adjacent to the US Army White Sands Missile Range (WSMR). NMSA and WSMR have a long standing partnership that allows NMSA to utilize the restricted air space from ground level to unlimited.

NMSA was established by the New Mexico Spaceport Development Act in 2005. The purpose of NMSA as defined in the act is to develop economic activity in New Mexico and create jobs. NMSA is delivering on that promise. Spaceport America and its tenants supported 75 full time jobs in FY17. It is estimated Spaceport America will create 100 new jobs in FY18.

In FY17, Aerospace activity has increased dramatically. Spaceport America had hosted 26 launches by the end of FY16 for a variety of vertical launch customers. By the end of FY17, that number increased to 40 launches. Combined with the 60 launches from the Spaceport America Cup Event, Spaceport America reached a milestone in FY17 of **100 launches to date** from the Vertical Launch Area. Additional aerospace activity in FY17 includes 2 launch system tests, 1 flight mission from the Horizontal Launch Area (HLA), and 2 balloon missions. This increase in activity reflects the growing demand from the Commercial Space Industry.

NMSA has lease contracts with five long-term tenants, including:

- **Virgin Galactic.** Spaceport America has, as its anchor tenant, Virgin Galactic. Since 2013, Virgin Galactic has paid NMSA one million dollars in building lease per year, plus \$30,000 per year in land lease. In addition, Virgin Galactic pays NMSA \$600,000 for beneficial occupancy of the facility each year. Virgin Galactic will pay additional user fees once they begin flying passengers but this has been delayed due to a mishap in October 2014.
- **SpaceX.** SpaceX is a leading company in the commercial space industry having flown several missions for NASA already, including delivery of cargo to the Space Station. SpaceX has been at the forefront of developing returnable booster technology, which is an important technology for launches from Spaceport America. SpaceX is paying tenant fees but has not started flying yet at the spaceport due to a mishap in June 2015 in Florida and a revised strategy of barge landings as the first test phase.
- **Up Aerospace.** Spaceport America's longest tenant, Up Aerospace, flies suborbital payloads for customers under the NASA Flight Opportunities Program. They are expected to fly multiple missions in FY18.
- **Exos Aerospace.** Formerly called "Armadillo Aerospace," this rebranded company has done multiple launches in the past from Spaceport America and is expected to do several suborbital launches in FY18.
- **Pipeline2Space.** This R&D company is developing new methods for launching payloads to space. They will begin testing from Spaceport America in FY18.

Spaceport America's strategic goal is to develop the primary inland spaceport to support our nation's commercial, NASA and DoD interests. This will be accomplished through three phases. The initial phase is through suborbital activity. Spaceport America is already successful in this market due to the high elevation and access to restricted airspace. Spaceport America tenants already include three of the top four sub-orbital launch operators (Virgin Galactic, Up Aerospace, and Exos Aerospace). The second phase will be orbital activity. Spaceport America is currently not launching any vehicles to orbit, but will in the near future with the right technologies like the spaceplane, single-stage to orbit rockets, and returnable booster technology. The final phase will be to develop a full service transportation hub for the nation to access space. The future will bring global transportation using space travel, and Spaceport America's unique attributes will provide a "port" to send and receive passengers and payloads.

In addition to aerospace activities, Spaceport America hosted four Signature Events in FY17. The first event was the Spaceport America Open House (Oct 1, 2016). This event was free to the public. Attendees can visit Spaceport America and learn about commercial space. The second event was the Spaceport America Drone Summit (Nov 11-13, 2016). This three-day event included drone racing, drone workshops, fixed-wing demonstrations, and drone cinematography competitions. The third event was the Spaceport America Relay Race (April 8-9, 2017). Runners raced along the historic El Camino Real de Tierra Adentro trail in a 200 mile, two-day event ending at Spaceport America. The final event was the Spaceport America Cup (June 20-24, 2017). 91 university teams from 12 countries on 6 continents participated in the world's largest intercollegiate rocket competition. This event brought 1,622 visitors to Spaceport America and generated event revenue of \$188,852.

STEM education initiatives are an important component of the mission of Spaceport America. STEM activities are planned with the goal to inspire the next generation of students, and build the workforce needed to support spaceport operations. NMSA hosted numerous STEM events, reaching over 2000 sixth graders throughout New Mexico. The virtual classroom program connects classrooms through an online portal with questions and answers dialogue and also provides the students with a virtual tour of the spaceport. In addition, several staff members visit classrooms in person to teach students about the space industry. Spaceport America is also available for classroom field trips, and the team has hosted several schools in FY17. All these programs will continue in FY18 and expand to other communities in New Mexico.



The Visitor Experience spaceport tours continued in FY17 through December, when the visitor center in Truth or Consequences, NM was temporarily shut down for refurbishment. The tours are expected to start again in FY18.

The bond funds used by NMSA in FY17 was for the Southern Road construction project. The Southern Road is an essential 23.7 mile road from the south to the spaceport—from Exit 32 on I 25. It is currently a dirt road that floods frequently with rain events. The road is made up of several county roads owned by Sierra County and Dona Ana County. The design for the improved road has been completed by Dona Ana County road engineers to include concrete box culverts over two arroyos; fencing, cattle guards and cattle gates along both sides of the road; straightening of the road at some locations; raising the road in some locations; archeological mitigation in accordance with NEPA; and Century Link cable provisions. Construction is expected to begin in FY18 and is scheduled to take a year. NMSA is funding the road construction at approximately \$14M of state capital outlay funds. The road will be maintained by the two counties as it is now.

## **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).

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).

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. NMSA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of NMSA can be divided into three categories: general fund, debt service, and capital projects funds.

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

NMSA currently maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and

changes in fund balances for the General Fund (SHARE Fund 87100), the Regional Spaceport District Fund (SHARE Fund 10570) and the Capital Projects Funds (SHARE Fund 89200). NMSA adopts an annual appropriated budget for its General Fund.

### **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 \$101,987,220 at the close of the 2017 fiscal year.

At the end of the 2017 fiscal year, NMSA is able to report positive balances in all categories of net position.

Governmental activities decreased NMSA's net position by \$1,583,696.

### **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 2017 fiscal year, NMSA's governmental funds reported combined ending fund balances of \$10,226,277, a decrease of \$195,871 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 assigned for Spaceport America operations. In FY17, NMSA reports unearned revenue of \$175,000 from funds received for launch operations that will occur in FY18.

The general fund is the chief operating fund of NMSA. At the end of the 2017 fiscal year, fund balance of the general fund was \$455,332. This is a decrease from the FY16 year end fund balance of \$1,536,563 due to the timing of revenue. Spaceport America received \$844,888 in the first month of FY18 which increased available fund balance for operations.

During the 2017 fiscal year, the fund balance of NMSA's general fund decreased by \$1,081,230.

### **Financial Analysis of NMSA as a Whole**

**Net Position.** NMSA's condensed net position changed from Fiscal Year 2016, decreasing from \$102.6 million to \$102.0 million, which represented a 1% change. The table below illustrates the condensed statement of net position:

**Detail of NMSA's Condensed Net Position as of June 30,**

## Governmental Activities:

Assets:	<u>FY17</u>	<u>FY16</u>
Current and Other Assets	\$ 11,285,107	\$ 10,711,029
Capital and Non-Current Assets	<u>149,170,157</u>	<u>153,670,543</u>
Total Assets	160,455,264	164,381,572
Liabilities:		
Current Liabilities	4,622,924	4,632,649
Non-Current Liabilities	<u>53,845,120</u>	<u>57,105,636</u>
Total Liabilities	58,468,044	61,738,285
Net Position:		
Net Investment in Capital Assets	92,064,525	93,284,194
Restricted - Capital Projects and Debt Service	9,822,673	7,957,956
Unrestricted, Subsequent Year's Expenditure	<u>100,022</u>	<u>1,401,137</u>
Total Net Position	<u>101,987,220</u>	<u>102,643,287</u>
Total Liabilities and Net Position	<u>\$ 160,455,264</u>	<u>\$ 164,381,572</u>

**Statement of Activities**

NMSA's change in net position for fiscal year 2017 was a decrease of \$1,583,696 (Statement of Activities). Approximately 16% of NMSA's revenue comes from State General Fund Appropriations; the remaining funds are from severance tax bond proceeds and gross receipts bond proceeds, government grants, as well as business activity such as aerospace activity, site tours, special events, and other non-aerospace activity.

**Statement of Activities for the year ended June 30,**

Governmental Activities:

General Revenues:	FY17	FY16
State General Fund Appropriations, Net	\$ 1,619,600	\$ 959,700
Gross Receipts Tax	6,763,303	6,550,738
Severance Tax Bond Appropriations	218,867	476,701
Federal Grant	728,399	-
Other Revenue	242,800	-
Total General Revenues	9,572,969	7,987,139
Program Revenues:		
Charges for Services	2,146,700	2,270,210
Interest Revenue	93,439	69,947
Total Revenues	2,240,139	2,340,157
Expenses:		
Spaceport Development	13,396,804	11,988,144
Increase (Decrease) in Net Position	(1,583,696)	(1,660,848)
Net Position - Beginning of Year	102,643,287	104,174,778
Restatement	927,629	129,357
Net Position - Beginning of Year, Restated	103,570,915	104,304,135
Net Position - End of Year	\$ 101,987,220	\$ 102,643,287

**Financial Analysis of NMSA's Funds**

**Capital Assets and Debt Administration.** NMSA had \$92,064,525 invested in capital assets, net of related debt for the year ended June 30, 2017.

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. NMSA continues to pay down the debt and has \$55,719,488 outstanding, and premiums of \$1,386,144.

## **Budgetary Comparisons**

In addition to the MD&A, GASB No. 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.

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 spending that was lower than budget of \$523,893. The agency spent under budget, because revenues also came in under budget by \$665,178. The difference of \$141,285 was absorbed by the fund balance in the General Fund.

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

2017 Highlights:

- 100 rocket launches to date
- 5 long-term aerospace customers
- \$2.2 million in customer revenue in FY17
- Held 4 Spaceport America annual signature events
- 75 full time jobs have been created
- STEM outreach to over 2,000 6<sup>th</sup> grade students across NM
- New CEO, Daniel Hicks started November 2016

## **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.

**NEW MEXICO SPACEPORT AUTHORITY  
FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NEW MEXICO SPACEPORT AUTHORITY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 1,479,044
Restricted Cash	7,073,247
Investment in State General Fund Investment Pool	1,367,874
Due from Other State Agencies	23,689
Accounts Receivable	1,269,127
Prepaid Expenses	62,576
Inventory	<u>9,550</u>
Total Current Assets	11,285,107
<b>Non-Current Assets</b>	
Capital Assets	169,152,378
Less Accumulated Depreciation	<u>(19,982,221)</u>
Net Capital Assets	<u>149,170,157</u>
<b>Total Assets</b>	<u>\$ 160,455,264</u>
<b>Liabilities</b>	
Accounts Payable	\$ 803,441
Accrued Payroll and Other Liabilities	61,262
Unearned Revenue	175,000
Compensated Absences Payable Due Within One Year	113,611
Interest Payable	209,098
Current Portion of Long-Term Obligations, including premium of \$115,512	<u>3,260,512</u>
Total Current Liabilities	4,622,924
<b>Long-Term Obligations</b>	
Non-Current Portion of Long-Term Obligations, including premium of \$1,155,120	<u>53,845,120</u>
Total Liabilities	58,468,044
<b>Net Position</b>	
Net Investment in Capital Assets	92,064,525
Restricted - Capital Projects and Debt Service	9,822,673
Unrestricted	<u>100,022</u>
Total Net Position	<u>101,987,220</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 160,455,264</u>

**NEW MEXICO SPACEPORT AUTHORITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

	Governmental Activities
Program Expenses	
Spaceport Development	\$ 13,396,804
Total Expenses	13,396,804
 Program Revenue	
Charges for Services	2,146,700
Interest Revenue	93,439
Total Program Revenues	2,240,139
 Net Program Revenue (Expense)	(11,156,665)
 General Revenues (Expenses)	
Gross Receipts Tax	6,763,303
State General Fund Appropriation	1,619,600
Severance Tax Bond Appropriations	218,867
Federal Grant	728,399
Other Government Revenues	242,800
Transfers In (Grants)	66,616
Transfers Out (Grants)	(66,616)
Total General Revenues	9,572,969
 Change in Net Position	(1,583,696)
 Net Position - Beginning of Year, as previously reported	102,643,286
 Restatement (Note 9)	927,629
 Net Position - Beginning of Year, Restated	103,570,916
 Net Position - End of Year	\$ 101,987,220



**NEW MEXICO SPACEPORT AUTHORITY  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	87100	10570	89200	
	General Fund	Regional Spaceport District Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>				
Investment in State General Fund Investment Pool	\$ 1,319,722	-	48,152	1,367,874
Other Cash - Held at Trustee	-	1,479,044	-	1,479,044
Restricted Cash	-	7,073,247	-	7,073,247
Due from Other State Agencies	-	-	23,689	23,689
Accounts Receivable	31,346	1,218,654	-	1,250,000
Prepaid Expenses	62,576	-	-	62,576
Inventory	9,550	-	-	9,550
<b>Total Assets</b>	<b>\$ 1,423,194</b>	<b>9,770,945</b>	<b>71,841</b>	<b>11,265,980</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 731,600	-	71,841	803,441
Accrued Payroll	61,262	-	-	61,262
Unearned Revenue	175,000	-	-	175,000
SGFIP Overdraft	-	-	-	-
Due To Other State Agencies	-	-	-	-
Other	-	-	-	-
<b>Total Liabilities</b>	<b>967,862</b>	<b>-</b>	<b>71,841</b>	<b>1,039,703</b>
<b>FUND BALANCES</b>				
Nonspendable	72,126	-	-	72,126
Restricted	-	9,770,945	-	9,770,945
Assigned	383,206	-	-	383,206
Unassigned	-	-	-	-
<b>Total Fund Balances</b>	<b>455,332</b>	<b>9,770,945</b>	<b>-</b>	<b>10,226,277</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,423,194</b>	<b>9,770,945</b>	<b>71,841</b>	<b>11,265,980</b>

**NEW MEXICO SPACEPORT AUTHORITY  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

<b>Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)</b>	\$	10,226,277
--	----	------------

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

Governmental Funds report revenue if it is collected within 60 days of the fiscal year end. The Statement of Activities reports all Accounts Receivable as revenue. The difference in the current period is:		19,127
--	--	--------

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		169,152,378
Accumulated Depreciation		(19,982,221)
Total Capital Assets		149,170,157

Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

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

Bonds Payable		(55,719,488)
Bond Premium (Related to Bond Issuance), Net of \$693,073 Amortization		(1,386,144)
Accrued Interest Payable Related to Bonds		(209,098)
Compensated Absences Payable		(113,611)
<b>Net Position of Governmental Activities (Statement of Net Position)</b>	<b>\$</b>	<b>101,987,220</b>

**NEW MEXICO SPACEPORT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2017**

	87100	10570	89200	
	General Fund	Regional Spaceport District Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>				
Gross Receipts Tax	\$ 322,149	6,441,154	-	6,763,303
Interest on Deposits	-	93,439	-	93,439
Federal Grant	728,399	-	-	728,399
Other Grants	242,800	-	-	242,800
Rental Revenue	1,161,896	-	-	1,161,896
Tours and launch Revenue	965,676	-	-	965,676
<b>Total Revenue</b>	<b>3,420,920</b>	<b>6,534,593</b>	<b>-</b>	<b>9,955,513</b>
<b>EXPENDITURES</b>				
Current:				
Personal Services and Benefits	1,474,657	-	-	1,474,657
Contractual Services	2,301,765	-	-	2,301,765
Other	2,289,209	-	218,867	2,508,076
Capital Outlay	56,120	-	-	56,120
Debt Service				
Principal	-	3,020,000	-	3,020,000
Interest and Other Charges	-	2,629,233	-	2,629,233
<b>Total Expenditures</b>	<b>6,121,751</b>	<b>5,649,233</b>	<b>218,867</b>	<b>11,989,851</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,700,831)</b>	<b>885,360</b>	<b>(218,867)</b>	<b>(2,034,338)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
State General Fund Appropriation	1,619,600	-	-	1,619,600
Severance Tax Bond Appropriation	-	-	218,867	218,867
Transfers In (Grants)	66,616	-	-	66,616
Transfers Out (Grants)	(66,616)	-	-	(66,616)
<b>Net Other Financing Sources</b>	<b>1,619,600</b>	<b>-</b>	<b>218,867</b>	<b>1,838,467</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,081,231)</b>	<b>885,360</b>	<b>-</b>	<b>(195,871)</b>
Fund Balances - Beginning of Year, as previously reported	1,536,563	7,957,571	385	9,494,519
Restatement (Note 9)	-	928,014	(385)	927,629
Fund Balances - Beginning of Year (Restated)	1,536,563	8,885,585	-	10,422,148
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 455,332</b>	<b>9,770,945</b>	<b>-</b>	<b>10,226,277</b>

**NEW MEXICO SPACEPORT AUTHORITY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2017**

**Net Changes in Fund Balances - Total Governmental Funds**

<b>(Statement of Revenues, Expenditures, and Changes in Fund Balances)</b>	\$	(195,871)
--	----	-----------

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

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) - are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The net increase in the liabilities for the year was:		(52,613)
--	--	----------

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

Principal Payments		3,020,000
--------------------	--	-----------

Amortization of bond premiums recorded as a reduction of interest expense in the Statement of Activities.		115,512
---	--	---------

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		56,120
----------------	--	--------

Depreciation Expense		(4,556,508)
----------------------	--	-------------

Excess of Capital Outlay Over Depreciation Expense		(4,500,388)
--	--	-------------

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:		10,530
--	--	--------

Governmental Funds report revenue if it is collected within 60 days of the fiscal year end. The Statement of Activities reports all Accounts Receivable as revenue. The difference in the current period is:		19,134
--	--	--------

<b>Change in Net Position of Governmental Activities (Statement of Activities)</b>	<b>\$</b>	<b>(1,583,696)</b>
--	-----------	--------------------

**NEW MEXICO SPACEPORT AUTHORITY**  
**STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND –**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**JUNE 30, 2017**

Revenues	GENERAL FUND - OPERATING FUND (87100)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
State General Fund Appropriation	\$ 1,644,000	1,619,600	1,619,600	-
Other Revenue	4,086,100	4,086,100	3,420,920	(665,178)
Total Revenues	\$ 5,730,100	5,705,700	5,040,520	(665,178)
Expenditures				
Current:				
Personal Services and Benefits	\$ 1,547,800	1,548,400	1,474,657	73,743
Contractual Services	2,601,600	2,526,600	2,301,765	224,835
Other	1,580,700	1,630,700	1,405,385	225,315
Total Expenditures	\$ 5,730,100	5,705,700	5,181,807	523,893
Other Expenditures (Grant)			939,944	
Total Expenditures			6,121,751	
Excess (Deficiency) of Revenues over (under) Expenditures and Other Financing Sources			(1,081,231)	
Net Change in Fund Balance			\$ (1,081,231)	

**NEW MEXICO SPACEPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**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.
- Actively promote and assist public and private sector infrastructure development to attract new industries and businesses, thereby creating new job 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.

**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.

## **NOTE 1 DEFINITION OF REPORTING ENTITY (Continued)**

### **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 bonds supported by Gross Receipts tax collected in Dona Ana and Sierra counties. During fiscal years 2009 and 2010, the Spaceport District pledged the GRT revenue for the issuance of Spaceport Revenue Bonds and NMSA issued bonds (through the New Mexico Finance Authority) in FY 2010 and 2011. 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.

### **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.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Government-wide and Fund Financial Statements (Continued)**

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.). 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.

Emphasis in the fund financial statements 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 are presented using the current financial resources measurement focus and the modified accrual basis of accounting.

### **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.



## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Basis of Presentation – Fund Accounting (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 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.

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 Non-exchange Transactions, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

### **Accrual**

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

### **Modified Accrual**

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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. A budgetary comparison is only presented for the General Fund (87100) and not the other funds as they do not have a legally adopted annual budget.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Budgets and Budgetary Accounting (Continued)**

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

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

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

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

NMSA has defined cash and cash equivalents to include investments with the State Treasurer in the State General Fund Investment Pool and other State Agency Accounts that are deposited with Bank of America. All cash is monitored by the State Treasurer. See Notes 3 and 4 for additional cash disclosure.

### **Inventory**

Items held for resale are valued at the lower of cost, using the average cost, or market. The average cost is estimated using the last-in, first-out (LIFO) method. Other costs associated with acquiring, storing and transporting merchandise inventories are expensed as incurred and included in Cost of Goods Sold (COGS). Physical inventory counts are taken on an annual basis at the end of each fiscal year to ensure that the inventory reported in our financial statements is properly stated. A portion of the amount reported in non-spendable fund balance represents inventories and indicates that supplies inventories are not available expendable resources for Department programs.

### **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.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Capital Assets (Continued)**

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

- Buildings 40 years
- Equipment and furniture 5 to 10 years
- Vehicles 10 years
- Improvements other than building 20 - 50 years

### **Due To/From Other Funds**

Internal balances due to/from in the governmental funds are netted as part of the reconciliation to the government-wide columnar presentation, as such eliminating internal activity in the Statement of Activities. There were no internal balances.

### **Non-Reverting Funds**

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

General Fund (Fund 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; revenues earned by the Agency.

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 16 for additional information about fund balances.

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

### **Revenues, Expenditures and Expenses**

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.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Revenues, Expenditures and Expenses (Continued)**

The fiduciary fund financial statements are reported using the economic resources measurement focus. Revenue is recognized with the underlying exchange transaction has occurred and the resources are available. The term available means collected within the current period or expected to be collected soon thereafter, not to exceed 60 days.

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.

### **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, 2017.

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, 2017.

### **Net Position**

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.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Position (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.

**Pensions**

In June 2012, 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 accountability and inter-period equity, and creating additional transparency.

In January 2013, 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.

Compliant with the requirements of Government Accounting Standards Board Statement No. 68 and No. 71, the State of New Mexico has implemented the standards for the fiscal year ending June 30, 2015.

NMSA, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, the total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the State’s share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**NOTE 3 CASH AND CASH EQUIVALENTS**

Cash for Fund 10570 is managed by the New Mexico Finance Authority (fiscal agent) and held by a State Treasurer authorized bank. The sources of funds are bond proceeds and other debt service requirements. These funds are invested in short-term money market accounts that invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations.

Fund	SHARE Fund	Investment (Cash)	Fair Value June 30, 2017
Regional Spaceport District Fund	10570	Cash Held at Trustee	\$ 1,479,044
Regional Spaceport District Fund	10570	Restricted Cash	7,073,247
		Total Cash Held at Trustee	<u>\$ 8,552,291</u>

**NOTE 4 STATE GENERAL FUND INVESTMENT POOL**

As provided for in Chapter 8-6 of the New Mexico Statutes Annotated 1978, the State Treasurer shall receive and keep all monies of the State, except when otherwise provided, and shall disburse the public money upon lawful warrants. The State Treasurer's Organization (STO) acts as the State's bank. Agency cash receipts are deposited with STO and pooled in a State Investment Fund, when amounts are greater than immediate needs they are placed into short-term investments. When agencies make payments to vendors and employees they are made from this pool and their claims on the pool reduced.

The comprehensive cash reconciliation model, which compares aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is now in its third year. This process has been reviewed multiple times by the IPAs during the audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report. The reviews have deemed the process to be sound and the Department fully compliant with the requirements of the monthly process.

As of June 30, 2017, resources held in the pool were equivalent to the corresponding business unit claims on those resources.

All claims as recorded in SHARE shall be honored at face value.

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims on the SGFIP will be honored in their entirety. Any adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

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.

**NOTE 5 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, 2017
General Fund	87100	NM STO General Fund Investment Pool	\$ 1,319,722
Capital Projects Fund	89200	NM STO General Fund Investment Pool	48,152
		Total Investment in State General Fund Investment Pool	<u>\$ 1,367,874</u>

**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.

**NOTE 5 INVESTMENT IN STATE GENERAL FUND INVESTMENT POOL (Continued)**

**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, 2017.

**NOTE 6 INVENTORIES**

Spaceport America started selling branded merchandise in FY17 as part of the Signature Event series of events. Items held for resale are valued at the lower of cost, using the average cost, or market. The average cost is estimated using the last-in, first-out (LIFO) method. Other costs associated with acquiring, storing and transporting merchandise inventories are expensed as incurred and included in Cost of Goods Sold (COGS). Physical inventory counts are taken on an annual basis at the end of each fiscal year to ensure that the inventory reported in our financial statements is properly stated. A portion of the amount reported in non-spendable fund balance represents inventories and indicates that supplies inventories are not available expendable resources for Department programs.

**NOTE 7 COMPENSATED ABSENCES**

During the year ended June 30, 2017, the following changes occurred in the compensated absence liabilities:

Balance June 30, 2016	Increase	(Decrease)	Balance June 30, 2017	Amounts Due Within One Year
\$ 60,998	130,594	(77,981)	113,611	113,611

The portion of compensated absences due after one year is not material, and therefore, not separately presented. Substantially, all of the compensated absences balances have been paid by the General Fund in prior years. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes.

**NOTE 8 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.

**NOTE 8 CAPITAL ASSETS (Continued)**

A summary of changes in capital assets follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Depreciable assets:				
Buildings	\$ 72,818,699	-	-	72,818,699
Improvements Other than Buildings	84,666,643	56,120	-	84,722,763
Vehicles	1,812,920	-	-	1,812,920
Equipment and Furniture	9,797,996	-	-	9,797,996
<b>Total Capital Assets</b>	<b>169,096,258</b>	<b>56,120</b>	<b>-</b>	<b>169,152,378</b>
Accumulated Depreciation:				
Buildings	(5,998,228)	(1,855,585)	-	(7,853,813)
Improvements Other than Buildings	(8,152,273)	(2,253,524)	-	(10,405,797)
Vehicles	(523,273)	(181,292)	-	(704,565)
Equipment and Furniture	(751,939)	(266,107)	-	(1,018,046)
<b>Total Accumulated Depreciation</b>	<b>(15,425,713)</b>	<b>(4,556,508)</b>	<b>-</b>	<b>(19,982,221)</b>
<b>Net Capital Assets</b>	<b>\$ 153,670,545</b>	<b>(4,500,388)</b>	<b>-</b>	<b>149,170,157</b>

Depreciation expense for the fiscal year was \$4,556,508 and was charged to Spaceport Development.

**NOTE 9 RESTATEMENT**

Prior Period Adjustments related to two capital assets result in a restatement to the beginning year fund balance in the Government Wide financial statements. \$928,014 was restated in Fund 10570 due to a change in accounting policy related to GRT tax revenue. The agency is changing to recognize tax revenue when collected instead of when received by the agency. The difference accounts for a two month timing delay. (\$385) was restated in Fund 89200 due to an error in FY13 where bond draws were different than expense receipts. The funding to cover this misstatement was taken from the operating Fund 87100.

Net position, beginning of year	\$ 102,643,286
Restatement	<u>927,629</u>
Net position, beginning of year restated	<u>\$ 103,570,915</u>



## **NOTE 10 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](http://www.pera.state.nm.us).

**Funding Policy.** Plan members are required to contribute 8.92% of their gross salary. NMSA is required to contribute 16.99% 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, 2017, 2016, and 2015 were \$173,151, \$176,668, and \$140,798, respectively, which equal the amount of the required contributions for each fiscal year.

## **NOTE 11 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](http://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,

#### **NOTE 11 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (Continued)**

are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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, 2017, 2016, and 2015 were \$20,383, \$20,797, and \$16,578, respectively, which equal the required contributions for each year.

#### **NOTE 12 CONTINGENT LIABILITIES (CLAIMS AND JUDGEMENTS)**

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:

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

In the case of civil actions or claims against 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 has no asserted claims in process. It is considered unlikely that NMSA will owe anything related to consequential damages or attorney's fees.

NMSA is subject to legal proceedings, claims, and liabilities, which arise in the ordinary course of its business. In the opinion on NMSA's management and legal counsel, no current legal claims will not have a material adverse effect on the financial position or results of operations of NMSA.

#### **NOTE 13 TRANSFERS**

During the fiscal year, NMSA received funds that were recorded as "Other Financing Sources" in the financial records. These amounts include \$959,700 appropriated to Department of Finance and Administration (DFA) for distribution to NMSA for the State General Fund appropriation, \$476,701 in Severance Tax Reimbursements from DFA – State Board of Finance. Additionally, NMSA received \$1,037,814 in FEMA Grant funds through the New Mexico Department of Homeland Security & Emergency Management (NMDHS&EM). The project was completed under budget and so \$66,616 was returned.

**NOTE 13 TRANSFERS (Continued)**

Fund Type	Description	SHARE Agency/Fund	Transfers In	Transfers Out
(1) General Fund 87100	State General Fund Appropriation	34101-85300	\$1,619,600	-
(2) Capital Projects Fund 89200	Severance Tax Bond Appropriation	34103-11720	218,867	-
(3) General Fund 87100	FEMA Grant	79500-20052	1,037,815	66,616
Total			<u>\$ 2,876,282</u>	<u>66,616</u>

**NOTE 14 DUE TO/FROM OTHER STATE AGENCIES**

NMSA Fund	Purpose	Agency Name	Agency Fund	Due From	Due To
89200	Severance Tax Draws	DFA	34103	\$ 23,689	-
Total				<u>\$ 23,689</u>	<u>-</u>

**NOTE 15 OPERATING LEASES**

The following is a schedule by year of future minimum lease payments. These include an office lease in Las Cruces, NM, lease payments for Spaceport America (18,000 acres) to the New Mexico State Land Office and lease payments for co-use of common leased land as of June 30, 2017:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$227,913
2019	211,125
2020	212,179
2021	213,264
2022	214,382
2023 and Thereafter	<u>1,985,624</u>
Total	<u>\$ 3,064,487</u>

**NOTE 16 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.

**NOTE 16 LONG-TERM DEBT (Continued)**

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.

The bond obligation is scheduled to continue until Fiscal year 2029.

The premium will be amortized using the straight-line method over the life of the bond. 100% of 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 will be maintained in the debt service fund.

Interest expense for the current fiscal year was \$2,629,233. The current portion of long-term debt is \$3,145,000. The current portion of the premium is \$115,512.

The changes in long-term balances for fiscal year 2017 are as follows:

	Balance June 30, 2016	Increase	(Decrease)	Current Liability June 30, 2017	Long-term Liability June 30, 2017	Balance June 30, 2017
2009 Series C	\$41,355,000	-	(2,380,000)	2,495,000	36,480,000	38,975,000
Issuance Premium	1,386,144	-	(115,512)	115,512	1,155,120	1,270,632
2009 Series C Total	42,741,144	-	(2,495,512)	2,610,512	37,635,120	40,245,632
2010 Series	17,500,000	-	(640,000)	650,000	16,210,000	16,860,000
Total	\$60,241,144	-	(3,135,512)	3,260,512	53,845,120	57,105,632

Maturities of the bond issuances for the next five years and thereafter as of June 30, 2017 are as follows:

<b>2009 Series C:</b>	<b>Balance Principal</b>	<b>Interest</b>	<b>Balance Total</b>
2018	\$ 2,495,000	1,879,836	4,374,836
2019	2,615,000	1,761,586	4,376,586
2020	2,740,000	1,636,486	4,376,486
2021	2,855,000	1,516,886	4,371,886
2022	2,985,000	1,390,368	4,375,368
2023-2027	17,165,000	4,913,903	22,078,903
2028-2029	8,120,000	417,908	8,537,908
	\$ 38,975,000	13,516,973	52,491,973

**NOTE 16 LONG-TERM DEBT (Continued)**

<b>2010 Series C:</b>	<b>Balance Principal</b>	<b>Interest</b>	<b>Balance Total</b>
2018	\$ 650,000	629,343	1,279,343
2019	665,000	614,328	1,279,328
2020	685,000	597,304	1,282,304
2021	710,000	577,576	1,287,576
2022	730,000	555,211	1,285,211
2023-2027	4,060,000	2,377,158	6,437,158
2028-2029	9,360,000	726,102	10,086,102
	<u>\$ 16,860,000</u>	<u>6,077,022</u>	<u>22,937,022</u>

Comparison of pledged revenue to bond obligations:

<b>Pledged Revenue Recognized FY17</b>	<b>Principal and Interest Requirements FY17</b>	<b>Excess Pledged Revenue FY17</b>
\$ 6,763,303	5,649,233	1,114,070

**NOTE 17 FUND BALANCE CLASSIFICATIONS**

The Department's fund balances represent: 1) Nonspendable, which include balances for inventories and prepaid expenses that are not available expendable resources for Department programs. 2) 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; 3) 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; 4) 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. NMSA has no unassigned fund balance. A summary of the nature and purpose of these reserves by fund type at June 30, 2017 follows:

**NOTE 17 FUND BALANCE CLASSIFICATIONS (Continued)**

General Fund - 87100

Fund Balances:

Unrestricted:

Nondisposable	\$ 72,126
Assigned	383,206

Debt Service Fund - 10570

Fund Balances:

Restricted for:

GRT Bond Construction Expenditures, 2009 Series C Public Projects and	9,770,945
GRT Bond Construction Expenditures, 2010 Series Public Projects	

Capital Projects Fund - 20510

Fund Balances:

Unrestricted:

Unassigned	-
------------	---

Total Fund Balances	<u>\$ 10,226,277</u>
---------------------	----------------------

**NOTE 18 RENTAL INCOME**

NMSA receives rental income from long-term leases with multiple aerospace companies performing operations at Spaceport America.

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$2,388,131
2019	3,087,283
2020	3,087,447
2021	3,087,618
2022	3,087,798
2023 and Thereafter	<u>32,436,117</u>
Total	<u>\$ 47,174,394</u>

## **NOTE 19 RISK MANAGEMENT**

NMSA 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.

## **NOTE 20 GOING CONCERN**

On October 27, 2017, the NM Finance Authority Board decided to not distribute local Gross Receipts Tax (GRT) revenue to the NM Spaceport Authority. The NM Finance Authority has been distributing this revenue to the NM Spaceport Authority every year since 2012 based on a signed agreement with the Local Tax District Board and the NM Spaceport Authority Board. The NM Spaceport Authority counts on these funds as part of the operating budget for Spaceport America. The NM Finance Authority has been holding Excess Pledged Revenue of 565k since July 2016. This is revenue collected from the "Regional Spaceport Tax" which is a local Gross Receipts Tax in Dona Ana and Sierra Counties. The Excess Pledged Revenue is tax money collected above what is needed to service the GRT bond payments each year. The parties have been negotiating the release of these funds for the last 16 months. The Local Tax District Board and the NM Spaceport Authority Board have requested the release of the funds, but the NM Finance Authority Board has decided to keep the tax revenue at the NM Finance Authority for early redemption of the GRT bonds due in 2028. Also at the October 27, 2017 meeting, the NM Finance Authority Board instructed NM Spaceport Authority management to no longer include these funds in the budget of the NM Spaceport Authority for future years, although they may make requests for disbursements annually at the discretion of the NM Finance Authority.

Given the importance of local GRT taxes to support the NM Spaceport Authority's operating budget in FY18 and the uncertainty of this revenue for future years, these factors raise concerns whether the NM Spaceport Authority has the funding to meet operational needs. The NM Spaceport Authority management plans to submit a request in January 2018 to the NM legislature to make up for the funding shortfall.

## **NOTE 21 NEW PRONOUNCEMENTS**

GASB has issues the following statements, which are applicable in future years. At this time, management has not determined the impact, if any, on NMSA.

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**

Effective Date: This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)**

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

#### **DEFINED BENEFIT OPEB**

##### **Defined Benefit OPEB That Is Provided through OPEB Plans That Are Administered through Trusts That Meet the Specified Criteria**

For OPEB that is administered through a trust that meets the specified criteria, requirements differ based on the number of employers whose employees are provided with OPEB through the OPEB plan and whether OPEB obligations and OPEB plan assets are shared by the employers. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit OPEB through single-employer OPEB plans—OPEB plans in which OPEB is provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit OPEB through agent multiple-employer OPEB plans—OPEB plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

##### **Measurement of the OPEB Liability to Employees for Benefits**



## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)**

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

The total OPEB liability generally is required to be determined through an actuarial valuation. However, if fewer than 100 employees (active and inactive) are provided with OPEB through the plan, use of a specified alternative measurement method in place of an actuarial valuation is permitted. An actuarial valuation or a calculation using the specified alternative measurement method of the total OPEB liability is required to be performed at least every two years, with more frequent valuations or calculations encouraged. If an actuarial valuation or a calculation using the alternative measurement method is not performed as of the measurement date, the total OPEB liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total OPEB liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date. For purposes of evaluating the benefit terms, consideration is required to be given to the written plan document, as well as other information, including other communications between the employer and employees and an established pattern of practice with regard to the sharing of benefit-related costs with inactive employees. Certain legal or contractual caps on benefit payments to be provided are required to be considered in projections of benefit payments.

This Statement requires that projections of benefit payments incorporate the effects of projected salary changes (if the OPEB formula incorporates future compensation levels) and service credits (if the OPEB formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). The effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic, also are required to be included in the projections. This Statement also requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on the benefit payments.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

This Statement requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the first period in which the employee provides service under the benefit terms, through the period in which the employee exits active service.

Alternative measurement method

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)**

This Statement includes an option for the use of a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through an OPEB plan in which fewer than 100 employees (active and inactive) are provided with OPEB through the plan. The alternative measurement method is an approach that includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions.

#### Single and Agent Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net OPEB liability. The net OPEB liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year (the measurement date), consistently applied from period to period.

The OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB that are required to be reported by an employer primarily result from changes in the components of the net OPEB liability—that is, changes in the total OPEB liability and in the OPEB plan's fiduciary net position.

This Statement requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For example, changes in the total OPEB liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms are required to be included in OPEB expense immediately. Projected earnings on the OPEB plan's investments also are required to be included in the determination of OPEB expense immediately.

In circumstances in which the net OPEB liability is determined based on the results of an actuarial valuation, the effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods. The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period.

Under all means of determining the net OPEB liability, the effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings is required to be included in OPEB expense in a systematic and rational manner over a closed period of five years, beginning in the current period.

Changes in the net OPEB liability that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

Employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources.

In governmental fund financial statements, a net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)**

#### Notes to financial statements

This Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also are required to disclose information that includes the following, as applicable:

- For the current year, sources of changes in the net OPEB liability
- Significant assumptions and other inputs used to calculate the total OPEB liability, including those about inflation, the healthcare cost trend rate, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies
- The date of the actuarial valuation or calculation using the alternative measurement method used to determine the total OPEB liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the OPEB plan, and information about the purchase of allocated insurance contracts, if any.

#### Required supplementary information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- Sources of changes in the net OPEB liability
- The components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

If an actuarially determined contribution is calculated for a single or agent employer, the employer is required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. If a single or agent employer does not have information about an actuarially determined contribution but has a contribution requirement that is established by statute or contract, the employer is required to present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the OPEB plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, are required to be presented as notes to required supplementary information. In addition, the employer is required to explain certain factors that significantly affect trends in the amounts reported in the schedules.

#### Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan)—the collective net OPEB liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the OPEB plan are determined. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)**

A cost-sharing employer is required to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB.

In addition, the effects of (1) a change in the employer's proportion of the collective net OPEB liability and (2) differences during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability are required to be determined. These effects are required to be recognized in the employer's OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees). The portions of the effects not recognized in the employer's OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective net OPEB liability also are required to be reported as deferred outflows of resources related to OPEB.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the OPEB plans through which the OPEB is provided. Cost-sharing employers are required to identify the discount rate and assumptions made in the measurement of their proportionate shares of net OPEB liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also are required to disclose information about how their contributions to the OPEB plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net OPEB liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the OPEB plan, and related ratios.

#### **Defined Benefit OPEB That Is Provided through OPEB Plans That Are Not Administered through Trusts That Meet the Specified Criteria**

For employers that provide insured benefits—defined benefit OPEB through an arrangement whereby premiums are paid or other payments are made to an insurance company while employees are in active service, in return for which the insurance company unconditionally undertakes an obligation to pay the OPEB of those employees—this Statement requires recognition of OPEB expense/expenditures equal to the amount of premiums or other payments required in accordance with their agreement with the insurance company. In addition to the amount of OPEB expense/expenditures recognized in the current period, a brief description of the benefits provided through the arrangement is required to be disclosed.

For defined benefit OPEB, other than insured benefits, that are provided through OPEB plans that are not administered through trusts that meet the specified criteria, this Statement requires an approach to measurement of OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB parallel to that which is required for OPEB provided through OPEB plans that are administered through trusts that meet the specified criteria. Similar note disclosures and required

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)**

supplementary information are required to be presented. However, the requirements incorporate modifications to reflect the absence of OPEB plan assets for financial reporting purposes.

#### **DEFINED CONTRIBUTION OPEB**

This Statement requires an employer whose employees are provided with defined contribution OPEB to recognize OPEB expense for the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in the OPEB liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to (or benefit payments through) a defined contribution OPEB plan. In governmental fund financial statements, OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to (or benefit payments through) an OPEB plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. An OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan are required to include descriptive information about the OPEB plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

#### **SPECIAL FUNDING SITUATIONS**

In this Statement, special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for providing certain forms of financial support for OPEB of the employees of another entity. Relevant forms of financial support are contributions directly to an OPEB plan that is administered through a trust that meets the specified criteria, including benefit payments as OPEB comes due for OPEB provided through such a plan, or making benefit payments directly as the OPEB comes due in circumstances in which OPEB is provided through an OPEB plan that is not administered through a trust that meets the specified criteria. Such support is a special funding situation if either (1) the amount of contributions or benefit payments, as applicable, for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to the OPEB or (2) the nonemployer entity is the only entity with a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as OPEB comes due, as applicable.

This Statement requires an employer that has a special funding situation for defined benefit OPEB to recognize an OPEB liability and deferred outflows of resources and deferred inflows of resources related to OPEB with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective OPEB expense, as well as additional OPEB expense and revenue for the OPEB support of the nonemployer contributing entities. This Statement requires that the employer disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach that is required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit OPEB is similar to the approach required for cost-sharing employers.

The information that is required to be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)**

depends on the proportion of the collective net OPEB liability that it recognizes. In circumstances in which a governmental nonemployer contributing entity recognizes a substantial proportion of the collective net OPEB liability, requirements for note disclosures and required supplementary information are similar to those for cost-sharing employers. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net OPEB liability.

This Statement also establishes requirements related to special funding situations for defined contribution OPEB.

### **GASB Statement No. 81, Irrevocable Split-Interest Agreements**

**Effective Date:** The requirements of this Statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged.

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

### **GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73**

**Effective Date:** The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 (Continued)**

#### **PRESENTATION OF PAYROLL-RELATED MEASURES IN REQUIRED SUPPLEMENTARY INFORMATION**

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

#### **SELECTION OF ASSUMPTIONS**

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

#### **CLASSIFICATION OF EMPLOYER-PAID MEMBER CONTRIBUTIONS**

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

### **GASB Statement No. 83, Certain Asset Retirement Obligations**

**Effective Date:** The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 83, Certain Asset Retirement Obligations (Continued)**

is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

### **GASB Statement No. 84, Fiduciary Activities**

**Effective Date:** The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.



## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 84, Fiduciary Activities (Continued)**

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

### **GASB Statement No. 85, Omnibus 2017**

**Effective Date:** The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged.

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

### **GASB Statement No. 86, Certain Debt Extinguishment Issues**

**Effective Date:** The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 86, Certain Debt Extinguishment Issues (Continued)**

accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

#### **IN-SUBSTANCE DEFEASANCE OF DEBT USING ONLY EXISTING RESOURCES**

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

#### **PREPAID INSURANCE RELATED TO EXTINGUISHED DEBT**

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

#### **ADDITIONAL DISCLOSURE FOR ALL IN-SUBSTANCE DEFEASANCE TRANSACTIONS**

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

### **GASB Statement No. 87, Leases**

Effective Date: For reporting periods beginning after December 15, 2019.

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 87, Leases (Continued)**

#### **DEFINITION OF A LEASE**

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

#### **LEASE TERM**

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

#### **SHORT-TERM LEASES**

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

#### **LESSEE ACCOUNTING**

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

## **NOTE 21 NEW PRONOUNCEMENTS (Continued)**

### **GASB Statement No. 87, Leases (Continued)**

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

#### **LESSOR ACCOUNTING**

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

#### **CONTRACTS WITH MULTIPLE COMPONENTS AND CONTRACT COMBINATIONS**

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

#### **LEASE MODIFICATIONS AND TERMINATIONS**

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

#### **SUBLEASES AND LEASEBACK TRANSACTIONS**

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

**NOTE 21 NEW PRONOUNCEMENTS (Continued)**

**GASB Statement No. 87, Leases (Continued)**

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

## **SUPPLEMENTARY INFORMATION (SI)**

**NEW MEXICO SPACEPORT AUTHORITY  
SUPPLEMENTAL SCHEDULE OF SEVERANCE TAX APPROPRIATIONS  
JUNE 30, 2017**

<b>Project Number</b>	<b>Project Description</b>	<b>Amount Appropriated</b>	<b>Amount Reverted</b>	<b>Art in Public Places</b>	<b>Amount Available</b>
A130030	Laws of 2007, Chapter 42, Section 100, Paragraph C-2	\$ 33,000,000	120	-	32,999,880
A084780	Originally authorized in Laws of 2008, Chapter 92, Subsection C of Section 76; reauthorized in Laws 2012, Chapter 63, Section 62; time of expenditure was extended in Laws 2014, Chapter 64, Section 37	7,500,000	-	-	7,500,000
A131812	Laws of 2013, Chapter 226, Section 33, Extended in Laws of 2017, Chapter 133, Section 73	3,000,000	-	-	3,000,000
A142028	Laws of 2014, Chapter 66, Section 24/1	6,400,000	-	-	6,400,000
A142029	Laws of 2014, Chapter 66, Section 24/2	114,000	-	1140	112,860
	<b>TOTAL</b>	<b>\$ 50,014,000</b>	<b>120</b>	<b>1,140</b>	<b>50,012,740</b>

[continued on next page]

**NEW MEXICO SPACEPORT AUTHORITY**  
**SUPPLEMENTAL SCHEDULE OF SEVERANCE TAX APPROPRIATIONS (Continued)**  
**JUNE 30, 2017**

Project Number	Expenditures Reported Prior Years (Unaudited)	Reversion Date	Expenditures Reported Current Year	Authorized Advance Amounts Received (Deferred Revenue)	June 30, 2017 Balance Available (Restricted Fund Balance)
A130030	\$ 32,999,880	6/30/2016	-	-	-
A084780	2,627,705	6/30/2018	-	-	4,872,295
A131812	156,226	6/30/2019	218,867	-	2,624,907
A142028	-	6/30/2018	-	-	6,400,000
A142029	112,860	6/30/2018	-	-	-
	<b>\$ 35,895,671</b>	-	<b>218,867</b>	-	<b>13,897,202</b>



**NEW MEXICO SPACEPORT AUTHORITY**  
**SUPPLEMENTAL SCHEDULE OF CASH ACCOUNTS INCLUDING INVESTMENTS**  
**JUNE 30, 2017**

Name of Depository	Fund Type	SHARE Fund No.	Type of Account	Balance
General Fund	General	87100	State Treasury	\$ 1,319,722
Regional Spaceport District Fund (Held at Trustee - New Mexico Finance Authority)	Debt Service	10570	State Treasury	8,552,291
Capital Projects Fund	Capital Projects	89200	State Treasury	<u>48,152</u>
				<u><u>\$ 9,920,165</u></u>

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

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

To Board of Directors  
New Mexico Spaceport Authority  
Las Cruces, New Mexico  
And  
Mr. Timothy Keller, 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, and the budgetary comparison of the general fund of the New Mexico Spaceport Authority (“the Spaceport”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Spaceport’s basic financial statements, and have issued our report thereon dated November 1, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Spaceport’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 the Spaceport’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Spaceport’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 combination of deficiencies, in internal controls 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 first paragraph of this section 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 questioned costs as item 2017-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Spaceport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003.

## **Spaceport Responses to Findings**

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

## **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 results 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Axiom, featuring the word "Axiom" in a blue, cursive script font.

Albuquerque, New Mexico

November 1, 2017

**STATE OF NEW MEXICO  
NEW MEXICO SPACEPORT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2017**

**Section A – Financial Statement Findings**

**2017-001 Prior Period Adjustment (Significant Deficiency)**

*Condition:* During our audit testwork we encountered the following issues:

- During our testwork over revenue, it was noted that Gross Receipts Tax revenue for FY16 was not properly reported in the FY16 financial statements for fund 10570. This led to a material restatement in the amount of \$928,014.24 to correct beginning fund balance.
- During our testwork over fund balance, it was noted that a restatement in the amount of \$385 is due to correcting an error from FY13.
  - Fund 10570 was materially understated in the amount of \$928,014.
  - Fund 89200 was overstated in the amount of \$385.

*Criteria:* The Manual of Accounting Practices requires that all state agencies “perform monthly reconciliations” and “Maintain accounts and information as necessary to show the sources of state revenues and the purpose for which expenditures are made and provide proper accounting control to protect state finances”. Additionally, Section 6-5-2, NMSA 1978 states that “State agencies shall comply with the Model Accounting Practices established by the Financial Control Division of the Department of Finance and Administration and the administrative head of each agency shall ensure that the Model Accounting Practices are followed.”

*Effect:* The statement of revenues and expenditures in the prior year’s audit report were not presented in conformity with GAAP. Without timely reconciliations there is an increased risk of error in the financial records.

*Cause:* Lack of effective internal controls surrounding the financial reporting process. The Department has not had adequate resources to develop well-established policies and procedures over financial close and reporting.

*Recommendation:* We recommend that the Department continue to develop policies and procedures to outline the requirements, timeliness and responsibilities over the financial close and reporting process.

*Management’s Response:* NMSA Management concurs with the finding, but disagrees with the classification as a significant deficiency. NMSA instituted a new accounting policy, after discussions with our audit firm, which created a restatement in Gross Receipts Tax revenue. This change does not affect cash, and only impacts the accrued revenue reported in Accounts Receivable. When Gross Receipts Tax is collected by the NM Taxation and Revenue Department, there is a two month lag before it is delivered to NMSA’s bank accounts. This impacts the timing of revenue reported in the financial statements across fiscal years. Management was following the advice of previous accounting firms for the previous policy that was followed. As management has been working proactively to improve their policies, and there were no errors in the reconciliation of actual taxes collected, NMSA management feels this finding

**STATE OF NEW MEXICO  
NEW MEXICO SPACEPORT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2017**

should be classified as “Findings that do not rise to the level of a significant deficiency.” Management will update the financial close and reporting procedures to include the recording of this accrual.

The misstatement related to \$385 corrects an accounting error from FY13 made by an outside accounting firm. NMSA management is confident that the internal controls in FY17 would not allow a similar mistake to occur.

**STATE OF NEW MEXICO  
NEW MEXICO SPACEPORT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2017**

**Section B- Compliance and Other Matters**

**2017-002 Cash Disbursements- Lack of Internal Control (Compliance and Other Matters)**

*Condition:* During our audit we encountered the following issues:

- During our internal control testwork over a sample of 25 cash disbursements we noted 2 instances totaling \$907.54, where the purchase order was created after the expenditure had incurred.
- During our internal control testwork over a sample of 25 cash disbursements we noted 3 instances totaling \$3,418.37, where proper approval was not authorized prior to the expenditure occurrence.

*Criteria:* Per NMAC 6.20.2.11 Internal Control Structure Standards, every agency shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

*Effect:* Disbursements could be made without proper approval and expenditures could be reported inaccurately or misclassified in the improper fund. This could result in funds being overspent and balances misstated. The Authority is not in compliance with NMAC 6.20.2.11 or Authority policy.

*Cause:* Established policies and procedures for review and approval were not consistently being followed.

*Recommendation:* We recommend that management ensure that adequate internal controls are established surrounding the cash disbursement process.

*Management's Response:* NMSA Management concurs with the findings. NMSA will perform a review of internal controls for Cash Disbursements and improve the relevant accounting policies. NMSA will be providing agency-wide training on the purchase process. Also, NMSA is requesting a budget increase to hire an additional accounting staff member to address the increase in work load experienced in FY17. It should also be noted that all purchases were appropriate and approved by management, but the control concerns are from staff not fully completing the internal paperwork. Management will put a corrective action plan in place and expects any issues to be resolved in FY18.

**STATE OF NEW MEXICO  
NEW MEXICO SPACEPORT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2017**

**2017-003 P-Card Control Process - (Compliance and Other Matters)**

*Condition:* During our testing of purchase card (P-Card) purchases, we noted the following issues:

- Out of 3 months of credit card statements tested, we noted 1 statement had 2 instances totaling \$62.92, where proper approval was authorized subsequent to the expenditure occurrence. We also noted 1 statement had 1 instance totaling \$75.00, where proper approval was authorized subsequent to the expenditure occurrence.

*Criteria:* Per agency P-Card Policy and Procedures authorized by DFA, pursuant the New Mexico Card Services GSD/SPD Statewide Price Agreement. The P-cardholder must obtain a program manager or supervisor signature or e-mail approval on all proposed orders on a statewide price agreement or P-Card quote form for direct purchases that provided to the program P-card administrator to support the purchase request before purchases are performed or orders are submitted. The P-card may not be used for purchases that deviate from State of New Mexico, the Department of Finance and Administration (DFA), Financial Control Division (FCD) policies and procedures, DFA/FCD's Procurement Card Listing for Restricted Items, any laws, rules, policies, state statutes governing the purchase of goods and services and these Policies and Procedures (hereafter referred to as NMDWS P-Card Policies and Procedures). Ineligible purchases include but are not limited to personal items, insurance, laundry, dry cleaning, medical, lab, drugs, clothing, uniforms and linen.

*Effect:* Non-compliance with the applicable P-Card policy and procedures.

*Cause:* Lack of internal controls surrounding the use of P-Cards. P-cardholder are annually signing the P-Card agreement but there is a lack of acknowledgement for the policies in place when signing; thus, annual review of policies and acknowledgement of P-Card agreement is not occurring. Untimely review and lack of adequate oversight by management as it relates to the use of P-Cards.

*Recommendation:* We recommend that management complete training of all employees involved in P-Card operations and all card holders sign an annual P-cardholder agreement.

*Management's Response:* NMSA Management concurs with the findings. NMSA will be updating the P-card policy to require an annual review and acknowledgement of the P-card agreement by all card holders. NMSA will perform a review of internal controls for P-Card Purchases and improve the relevant accounting policies. NMSA will be providing agency-wide training on the purchase process. Also, NMSA is requesting a budget increase to hire an additional accounting staff member to address the increase in work load experienced in FY17. It should also be noted that all purchases were appropriate and approved by management, but the control concerns are from staff not fully completing the internal paperwork. Management will put a corrective action plan in place and expects any issues to be resolved in FY18.

**STATE OF NEW MEXICO  
NEW MEXICO SPACEPORT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2017**

**STATUS OF PRIOR YEAR FINDINGS**

None



## **EXIT CONFERENCE**

Audit committee: Rick Holdridge, Davin Lopez, Nathan LaFont

Spaceport Director: Dan Hicks

Chief Financial Officer: Zach De Gregorio

Axiom: Jaime Rumbaoa, Partner