State of New Mexico
OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

February 9, 2005

SAO Ref. No. 385

William C. Sisneros, Executive Director
New Mexico Finance Authority
409 St. Michaels Drive
Santa Fe, NM 87505

SUBJECT: Audit Report—New Mexico Finance Authority—2003-2004 Fiscal Year—Prepared by Neff & Ricci, LLP

Your agency audit report was received by the Office of the State Auditor (Office) on December 15, 2004. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A), NMSA 1978, t**he audit report does not become public record until ten days after the date of this letter**. Once the ten day waiting period has passed the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer; and

- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10 K. (3) (d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies*.

The independent public accountant's findings and comments are included in the audit report on page 83. ***It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.***

DOMINGO P. MARTINEZ, CGFM
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration
Financial Control Division & Budget Division
Office of the State Treasurer
Neff & Ricci, LLP

Received in NMFA
FEB 11 2005
Time ________

2113 Warner Circle, Santa Fe, New Mexico 87505-5499
(505) 827-3500 (800) 432-5517 Fax (505) 827-3512
http://www.saonm.org

NEFF + RICCI LLP

6100 UPTOWN BLVD NE · SUITE 400 · ALBUQUERQUE, NM 87110

TEL: 505.830.6200 FAX: 505.830.6282 WEB: WWW.NEFFCPA.COM

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2004

OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2004

Official Roster

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Samuel O. Montoya, Secretary
Ron Curry
James Jimenez
Rick Homans
Joanna Prukop
Gary Bland
James L. McDonough
Craig Reeves
Randy Harris
John A. Carey

Executive Director

William C. Sisneros

Chief Financial Officer

Keith H. Mellor

Controller

Joe Gosline

6100 UPTOWN BLVD NE · SUITE 400 · ALBUQUERQUE, NM 87110
TEL: 505.830.6200 FAX: 505.830.6282 WEB: WWW.NEFFCPA.COM

Independent Auditors' Report

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor fund of the Authority, as of June 30, 2004, and the respective changes in the financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4-14 is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of pledged collateral is presented for purposes of additional analysis and are not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to each of the respective individual funds taken as a whole.

Neff + Ricci LLP

Albuquerque, New Mexico
December 3, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The New Mexico Finance Authority (the Authority) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (ability to address future year challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

HIGHLIGHTS

Financial Highlights

Statement of Net Assets (see table 1)
The Authority's total net assets at FY 2004 year end were $118,103,992 compared to $149,344,036 in FY 2003 a net decrease of $31,240,044 due to the following factors: The governmental net assets for FY 2004 were ($21,388,860) compared to $29,053,630 in FY 2003 a decrease of $50,442,490. This was primarily due to the defeasing of two highway bond issues and the subsequent liquidation of the funds; and the accelerated redemption of a state automation bond issue. Business-type FY 2004 net assets were $139,492,852 compared to $120,290,406 in FY 2003 an increase of $19,202,446. This was due primarily to increases in PPRF loan production. Generally, the other Business-type funds experienced growth.

Statement of Activities (see table 2)
The Governmental and Business-type activities FY 2004 Program revenue was $20,732,745 down from $27,195,280 in FY 2003, a decrease of $6,462,535. This was primarily due to a decrease in pledged tax revenue FY 2004 related to accelerated bond redemptions and defeasing. The Governmental and Business-type activities FY 2004 General Revenue and Transfers were $39,081,849 down from $49,325,234 in FY 2003, a decrease of $10,243,385 due to the reason stated above.

The change in net assets was a decrease of $29,183,116 in fiscal year 2004, due to the reasons explained above. The total FY 2004 cost of all NMFA programs was $88,997,710 compared to $79,771,251 in FY 2003, a net increase of $9,226,459 due to an increase of $17,773,084 in governmental funds and a $8,546,625 decrease in Business-type funds. The $17,773,084 increase of Governmental Type expenses was due entirely to debt service expenditures related to the defeasing of the Highway bonds. The $8,546,625 decrease of Business-type expenses was due mainly to reduced operating expenses of the PPRF loan program; and reduced transfers to other state agencies.

The Authority's gross assets decreased from $622,798,012 in FY 2003 to $609,471,888 in FY 2004; a decrease of $13,326,124.

NMFA Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the NMFA and the NMFA provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY 2004, the PPRF program made approximately ninety loans totaling approximately $115.2 million compared to seventy loans totaling $70.7 million in FY 2003.

In cooperation with the New Mexico Environment Department (NMED), the NMFA administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY 2004, the DWRLF made one loan totaling $1.8 million compared to three loans totaling $5.9 million in FY 2003. The FY 2004 binding commitments numbered seven, approximating $31.5 million compared to four totaling approximately $16.5 million in FY 2003.

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2004, the NMFA Board has approved fourteen loans totaling $7.75 million.

During FY 2004, the NMFA issued $1.17 billion in bonds to provide all or part of the financing for several state projects, including the additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center located at the University of New Mexico Health Sciences Center in Albuquerque as well as certain transportation projects authorized by the New Mexico Department of Transportation.

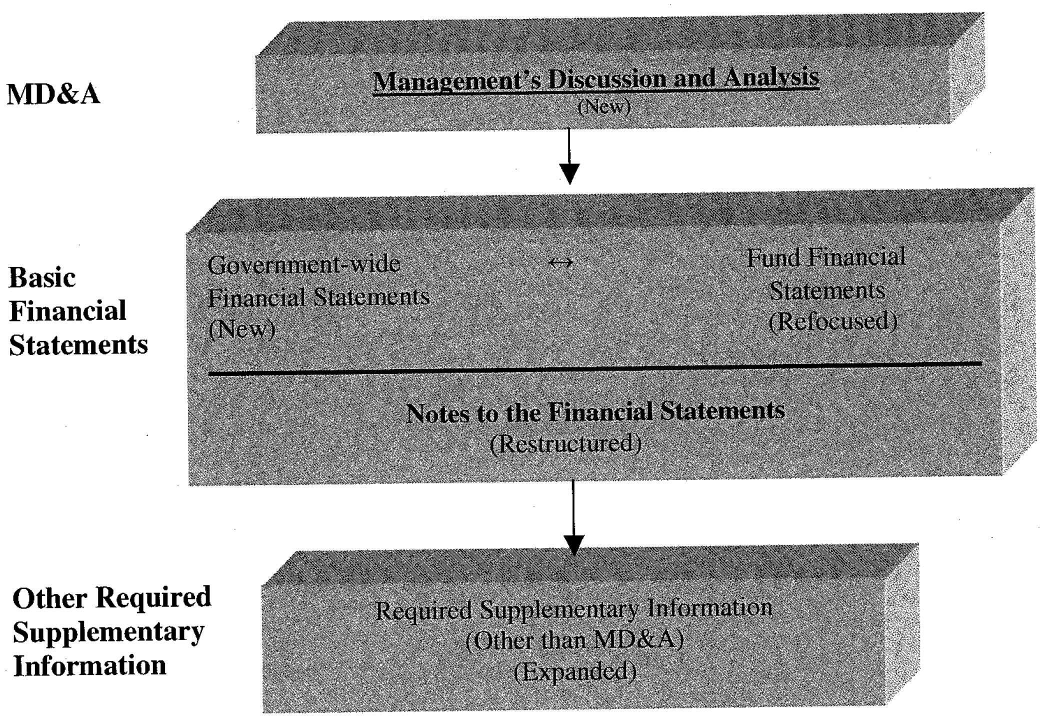
The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY 2004, 40 grants closed for a total of $10,730,017, compared to 40 grants totaling $20,452,613 in FY 2003.

The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework and created a fifteen-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the NMFA, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The NMFA is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects as well as an appropriation for future use to the Water Project Fund in FY 2004. In FY 2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY 2005, funding will come from severance tax.

USING THIS ANNUAL REPORT

The focus is on both the NMFA (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the NMFA is an instrumentality of the State of New Mexico Government, the primary government focus in this financial report is the NMFA and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions, or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the NMFA. Both statements distinguish between the governmental and business-type activities of the NMFA. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The government-wide financials statements of the NMFA are divided into two categories:

- Governmental Activities – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the NMFA are the, Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Behavioral Health Clinic Financing, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capitol Improvement Financing, and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities – The Authority's revolving fund programs and operating fund are included in the Business-type activities. The funds included in the Business-type activities for the NMFA are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the GRIP Administrative Fund, and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Governmental Fund Types:

- Special Revenue funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authorities funds classified as Special Revenue Funds are the UNM Cancer Center Bond Fund, the Water Waste/water Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service funds – The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs. The funds classified as debt service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund, and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

- Enterprise funds – Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the costs of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The funds classified as proprietary funds are, the General Operating fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund, and the Behavioral Health Clinic Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Infrastructure Assets

Infrastructure assets (roads, bridges, traffic signals, etc.) are to be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The NMFA does not own a material interest in any infrastructure assets.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and therefore does not present any budgetary statements.

FINANCIAL ANALYSIS OF THE NMFA AS A WHOLE

Net Assets: Table 1 summarizes the Authority's net assets for the fiscal years ending June 30, 2004 and 2003 on a comparative basis. FY 2004 net assets for Governmental Activities and Business-type Activities were ($21,388,860) and $139,492,852 respectively. Total NMFA net assets for fiscal year 2004 are $118,103,992. However, most of those net assets are restricted as to the purposes for which they can be used.

Table 1
The NMFA Statement of Net Assets

	Governmental Activities FY 2003	Governmental Activities FY 2004	Business-type Activities FY 2003	Business-type Activities FY 2004	**Total FY 2003**	**Total FY 2004**
ASSETS AND OTHER DEBITS						
Current and Other Assets	$ 122,223,030	122,103,991	172,454,211	165,606,355	**294,677,241**	**287,710,346**
Capital and Non-Current Assets	111,867,524	5,465,722	216,253,247	316,295,820	**328,120,771**	**321,761,542**
Total Assets	**$234,090,554**	**$127,569,713**	**$388,707,458**	**$481,902,175**	**$622,798,012**	**$609,471,888**
LIABILITIES						
Current Liabilities	$ 31,094,603	12,212,900	68,511,006	105,575,960	**99,605,609**	**117,788,860**
Long-Term Liabilities	173,942,321	136,745,673	199,906,046	236,833,363	**373,848,367**	**373,579,036**
Total Liabilities	**205,036,924**	**148,958,573**	**268,417,052**	**342,409,323**	**473,453,976**	**491,367,896**
NET ASSETS						
Invested in capital assets	-	23,010	30,056	46,023	**30,056**	**69,033**
Restricted	29,053,630	(21,411,870)	120,242,644	138,667,438	**149,296,274**	**117,255,568**
Unrestricted	-	-	17,706	779,391	**17,706**	**779,391**
Total net assets	**29,053,630**	**(21,388,860)**	**120,290,406**	**139,492,852**	**149,344,036**	**118,103,992**
Total liabilities and net assets	**$ 234,090,554**	**$127,569,713**	**$388,707,458**	**$481,902,175**	**$622,798,012**	**$609,471,888**

Statement of Activities: (Table 2).

Revenue

Total revenue for The NMFA as a whole in FY 2004 was $59,814,594. The Authority's revenue was generated from a number of sources.

For governmental-type activities total revenue was $23,093,430 of which tax revenues comprised 71%, operating grants and contributions comprised 5%, interest and investment income comprised 9%, charges for services and transfers comprised 10% and other revenue comprised 4%.

For business-type activities total revenue was $36,721,164 of which tax revenues comprised 50%, operating grants and contributions 12%, interest and investment income 3%, and charges for services and transfers 35%.

Table 2
NMFA Statement of Activities

	Governmental - type Activities (Infrastructure financing) FY 2003	Governmental - type Activities (Infrastructure financing) FY 2004	Business-type Activities (Infrastructure financing) FY 2003	Business-type Activities (Infrastructure financing) FY 2004	Total FY 2003	Total FY 2004
Expenses	$53,208,538	$71,484,073	$26,562,713	$17,513,637	$79,771,251	$88,997,710
Total program revenues	7,330,051	3,561,199	19,865,229	17,171,546	27,195,280	20,732,745
Changes in net assets:						
Net (expense) revenue	(45,878,487)	(67,922,874)	(6,697,484)	(342,091)	(52,575,971)	(68,264,965)
Total general revenues and transfers	32,326,639	10,532,410	16,998,595	20,549,439	49,325,234	39,081,849
Change in net assets	(13,551,848)	(49,390,464)	10,301,111	20,207,348	(3,250,737)	(29,183,116)
Net assets - beginning, as adjusted	42,605,478	28,001,604	109,989,294	119,285,504	152,594,772	147,287,108
Net assets – ending	$29,053,630	($21,388,860)	$120,290,405	$139,492,852	$149,344,035	$118,103,992

Expenditures

Total expenditures for The NMFA as a whole in FY 2004 were $88,997,710.

The Authority's total expenditures for government-type activities during the fiscal year were $70,981,622. Approximately 1% of the expenditures are in the area of operating costs which include salaries and benefits, professional services, travel, etc. Grant expenses comprise 6% of the total, debt service expenditures 65%, and transfers to other state agencies 28%.

Expenditures for business-type activities totaled $17,513,637. The majority of expenditures for business-type activities were for debt service and grant expense, 61% and 24% of total expenditures respectively. Within the operating cost category salaries and benefits comprised 10% of total expenditures and all other operating costs such as professional services, repairs and maintenance, travel, supplies etc., were 5% of total expenditures.

Budgetary Highlights

For FY 2004 the NMFA completed the year with a favorable expenditure variance of $354,898 for its combined total of all budgeted funds (please see Table 3).

Table 3

Total of all Budgeted Program Funds

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Revenues:			
Administrative Fees	$ 823,047	$ 823,047	$ -
Set-aside Revenue	-	-	-
Reimbursement Revenue	1,769,019	1,032,659	(736,360)
Interest Income	-	-	-
Grant Revenue	-	-	-
Total Revenue	2,592,066	1,855,706	(736,360)
Operating Transfers in	2,471,914	2,471,914	-
Total Revenue and transfers in	$ 5,063,980	$ 4,327,620	$ (736,360)

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Expenditures:			
Current:			
Personnel Services	$ 1,130,205	$ 1,050,985	$ 79,220
Employee Benefits	484,095	438,721	45,374
In-State Travel	66,570	41,106	25,464
Office Supplies	33,000	30,301	2,699
Contractual Services	627,369	439,522	187,847
Operating Costs	272,209	262,482	9,727
Out-of-State Travel	24,996	13,147	11,849
Total Current Expenditures	2,638,444	2,276,264	362,180
Capital Outlay	61,002	68,284	(7,282)
Total Expenditures	$ 2,699,446	$ 2,344,548	$ 354,898

Capital Assets and Debt Administration

At the end of fiscal year 2004, the NMFA has invested a total of $46,023 net of depreciation in business-type activities and $23,010 in fixed assets for government-type activities. During FY 2004, capital outlay expenditures totaled $62,281. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 9 to the financial statements.

GASB Statement #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The NMFA does not own any infrastructure assets.

Long-Term Debt

The Authority's long term debt is all outstanding bond issues related to the various programs administered by the NMFA. At the end of fiscal year 2004, the total amount outstanding was $399 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority.) More detailed information about the Authority's long-term debt is presented in Note 10 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year's ended June 30, 2004 and 2003.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2004 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

- General operations of the NMFA, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board funded from the Water Project Fund;
- Administration of the Water Trust Board funded from the Emergency Drought Relief Declarations;
- Water and Wastewater Grant Fund (W/WWGF)program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) Program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF.
- The Economic Development Fund, funded from administration fees and cigarette tax revenue (new).

The Authority's primary operating budget for FY 2004 is $2,699,446, compared to the FY 2003 budget of $2,376,425, a 12% increase.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, legislators, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Finance NMFA
409 St. Michael's Drive
Santa Fe, New Mexico 87505

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 82,059,100	45,319,092	127,378,192
Receivables			
Taxes	1,358,595	1,951,709	3,310,304
Interest	-	3,036,590	3,036,590
Grant and other	-	3,029,573	3,029,573
Loans, net of allowance	500,000	312,377,608	312,877,608
Securities	-	13,783,817	13,783,817
Due from other funds	70,968	-	70,968
Due from other state agency	-	308,194	308,194
Cash and cash equivalents - restricted	38,545,216	98,177,380	136,722,596
Capital assets, net of depreciation	23,010	46,023	69,033
Deferred issuance costs	4,942,712	3,864,579	8,807,291
Other assets	70,112	7,610	77,722
Total assets	$ 127,569,713	481,902,175	609,471,888
LIABILITIES			
Accounts payable and accrued liabilities	461,152	777,191	1,238,343
Accrued payroll, fringe benefits and compensated absences	12,133	140,525	152,658
Accrued interest payable	853,685	815,253	1,668,938
Debt service payable	1,971,553	21,679,063	23,650,616
Long-term notes payable	2,000,000	-	2,000,000
Funds held for others	59,409	62,915,790	62,975,199
Due to other state agencies	-	552,138	552,138
Due to other funds	70,968	-	70,968
Bonds payable, current	13,722,931	18,696,000	32,418,931
Bonds payable, long term	129,806,742	236,833,363	366,640,105
Total liabilities	148,958,573	342,409,323	491,367,896
NET ASSETS			
Invested in capital assets	23,010	46,023	69,033
Restricted for			
Debt service	(55,077,839)	65,201,128	10,123,289
Program funds	33,665,969	73,466,310	107,132,279
Unrestricted	-	779,391	779,391
Total net assets	(21,388,860)	139,492,852	118,103,992
Total liabilities and net assets	$ 127,569,713	481,902,175	609,471,888

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

		Governmental - Activities	Business-type Activities	Total
Expenses - Capital Financing	$	71,484,073	17,513,637	88,997,710
Program revenues				
Charges for services		2,306,199	12,803,198	15,109,397
Operating grants and contributions		1,255,000	4,368,348	5,623,348
Total program revenues		3,561,199	17,171,546	20,732,745
Net (expense) revenue		(67,922,874)	(342,091)	(68,264,965)
General revenues				
Taxes				
Governmental gross receipts and gross receipts taxes		16,499,786	18,368,369	34,868,155
Investment earnings		2,067,377	1,181,249	3,248,626
Other revenue		965,068	-	965,068
Total general revenues		19,532,231	19,549,618	39,081,849
Transfers		(999,821)	999,821	-
Change in net assets		(49,390,464)	20,207,348	(29,183,116)
Net assets - beginning		29,053,630	119,787,955	148,841,585
Transfer net assets		502,451	(502,451)	-
Restatement		(1,554,477)	-	(1,554,477)
Net assets - beginning, as adjusted		28,001,604	119,285,504	147,287,108
Net assets - ending	$	(21,388,860)	139,492,852	118,103,992

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	Federal Highway Forest Road Financing Fund	Highway 44 Financing Fund	Metro Court Financing Fund
ASSETS			
Cash and cash equivalents	$ -	-	2,195,870
Tax revenue receivable	-	-	452,613
Other assets	-	-	-
Due from other funds	-	-	-
Due from other state agencies	-	-	-
Loans receivable	-	-	-
	-	-	2,648,483
Restricted Assets			
Cash and cash equivalents held for others by trustee			
Debt service	-	-	4,136,966
Bond reserve	-	-	70,128
Expense fund	-	-	-
Program - Grant proceeds for other state agency	-	-	-
Program - Bond proceeds	-	-	-
Total restricted assets	-	-	4,207,094
Total assets	$ -	-	6,855,577
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued liabilities	$ -	-	-
Debt service payable	-	-	111,140
Notes payable	-	-	-
Funds held for others	-	-	-
Due to other state agencies	-	-	-
Due to other funds	-	-	-
Total liabilities	-	-	111,140
Fund balances - reserved for			
Debt service	-	-	6,744,437
Special revenue funds	-	-	-
Total fund balances	-	-	6,744,437
Total liabilities and fund balances	$ -	-	6,855,577

See Notes to Financial Statements.

State Building Program Cigarette Tax	State Building Purchase Fund	UNM Health Sciences	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
3,201,122	16,286,452	73,569	17,069,269	39,940,824	3,291,994	82,059,100
99,258	500,000	-	-	-	306,724	1,358,595
70,112	-	-	-	-	-	70,112
70,968	-	-	-	-	-	70,968
-	-	-	-	-	-	-
-	-	-	-	-	500,000	500,000
3,441,460	16,786,452	73,569	17,069,269	39,940,824	4,098,718	84,058,775
-	-	-	-	-	57,977	4,194,943
441,799	-	-	-	-	172,377	684,304
-	-	-	-	-	-	-
100,550	-	32,241,774	-	-	59,423	32,401,747
902,322	-	-	-	-	361,900	1,264,222
1,444,671	-	32,241,774	-	-	651,677	38,545,216
4,886,131	16,786,452	32,315,343	17,069,269	39,940,824	4,750,395	122,603,991
-	-	241,602	4,682	10,262	216,739	473,285
-	321,568	1,515,457	-	-	23,388	1,971,553
2,000,000	-	-	-	-	-	2,000,000
-	-	-	-	-	59,409	59,409
-	-	-	-	-	-	-
-	-	-	67,960	-	3,008	70,968
2,000,000	321,568	1,757,059	72,642	10,262	302,544	4,575,215
-	16,464,884	30,558,284	-	-	1,766,064	55,533,669
2,886,131	-	-	16,996,627	39,930,562	2,681,787	62,495,107
2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,447,851	118,028,776
4,886,131	16,786,452	32,315,343	17,069,269	39,940,824	4,750,395	122,603,991

NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

Total fund balances - governmental funds		$ 118,028,776
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets	$ 43,763	
Accumulated depreciation	(20,753)	
		23,010
Bond deferred issuance costs		4,942,712
Accrued interest payable		(853,685)
Bond payable		(139,178,000)
Bond premium and discount, net		(4,351,673)
Net assets of governmental activities		$ (21,388,860)

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Federal Highway Forest Road Financing Fund	Highway 44 Financing Fund	Metro Court Financing Fund
Revenues			
Tax revenue	$ -	-	5,968,450
Grant revenue	-	-	-
Interest on loans	184,343	2,121,856	-
Interest on investments	-	-	332,125
Other revenue	-	-	-
Total revenues	184,343	2,121,856	6,300,575
Expenditures			
Administrative fee	-	-	140,225
Professional services	-	-	9,020
Salaries and fringe benefits	-	-	-
In-state travel	-	-	-
Maintenance and repairs	-	-	-
Operating costs	-	-	-
Grant expense	-	-	-
Total current expenditures	-	-	149,245
Debt service			
Principal payments	17,830,000	90,335,000	1,405,000
Interest expense	380,788	2,121,856	2,768,771
Bond issuance costs	-	-	-
Total debt service expenditures	18,210,788	92,456,856	4,173,771
Excess (deficiency) of revenues over expenditures	(18,026,445)	(90,335,000)	1,977,559
Other Financing Sources (Uses)			
Bond proceeds	-	-	-
Bond premium	-	-	-
Transfers (to) from other funds	-	-	(504,827)
Transfers to other state agencies	-	-	(19,902,751)
Total other financing sources (uses)	-	-	(20,407,578)
Net change in fund balance	(18,026,445)	(90,335,000)	(18,430,019)
Fund balances - beginning	18,026,445	90,335,000	25,174,456
Transfer in State Building Purchase Fund	-	-	-
Reclassification for change in fund type	-	-	-
Restatement	-	-	-
Fund balances - beginning, as adjusted	18,026,445	90,335,000	25,174,456
Fund balances - ending	$ -	-	6,744,437

See Notes to Financial Statements.

State Building Program Cigarette Tax	State Building Purchase Fund	UNM Health Sciences	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
$ 1,214,527	6,000,000	-	-	-	3,316,809	16,499,786
-	-	-	-	-	1,255,000	1,255,000
-	-	-	-	-	-	2,306,199
115,977	438,344	39,716	268,330	774,364	98,521	2,067,377
-	-	-	-	-	-	-
1,330,504	6,438,344	39,716	268,330	774,364	4,670,330	22,128,362
-	48,975	-	-	-	38,592	227,792
5,590	29,491	168,500	38,992	62,486	69,403	383,482
-	-	-	90,449	74,421	53,410	218,280
-	-	-	8,182	2,601	1,559	12,342
-	-	-	1,640	1,351	686	3,677
-	-	-	30,226	29,787	18,094	78,107
-	-	-	840,449	11,089,404	219,873	12,149,726
5,590	78,466	168,500	1,009,938	11,260,050	401,617	13,073,406
600,000	1,215,000	-	-	-	1,179,000	112,564,000
93,300	1,442,600	-	-	-	857,079	7,664,394
-	22,238	-	-	-	-	22,238
693,300	2,679,838	-	-	-	2,036,079	120,250,632
631,614	3,680,040	(128,784)	(741,608)	(10,485,686)	2,232,634	(111,195,676)
-	-	39,035,000	-	-	-	39,035,000
-	-	965,068	-	-	-	965,068
(543,514)	-	-	40,873	8,826	(1,179)	(999,821)
(94,150)	(20,219,812)	(9,313,000)	-	-	(1,588,475)	(51,118,188)
(637,664)	(20,219,812)	30,687,068	40,873	8,826	(1,589,654)	(12,117,941)
(6,050)	(16,539,772)	30,558,284	(700,735)	(10,476,860)	642,980	(123,313,617)
2,892,181	-	-	17,697,362	50,407,422	5,359,348	209,892,214
-	502,451	-	-	-	-	502,451
-	32,502,205	-	-	-	-	32,502,205
-	-	-	-	-	(1,554,477)	(1,554,477)
2,892,181	33,004,656	-	17,697,362	50,407,422	3,804,871	241,342,393
$ 2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,447,851	118,028,776

NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

Net change in fund balances - governmental funds		(123,313,617)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Issuance of bonds		(39,035,000)
Bond debt service principal payments		112,564,000
Depreciation expense	(20,753)	
Capital outlay	43,763	
Excess of capital outlay over depreciation expense		23,010
Change from prior year in:		
Amortization of bond issuance costs		1,476,633
Amortization of net bond premium		(2,462,183)
Interest expense on long-term debt is recognized when paid under the modified accrual basis of accounting		1,356,693
Change in net assets of governmental activities		$ (49,390,464)

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund
ASSETS			
Cash and cash equivalents	$ 231,116	42,929,616	2,158,360
Receivables			
Taxes	-	1,951,709	-
Interest	-	2,926,916	109,674
Grant and other	251,110	684,782	2,093,081
Due from other state agency	-	-	-
Due from other funds	-	-	-
Total current assets	482,226	48,493,023	4,361,115
Loans, net of allowance	-	287,162,350	19,551,047
Securities	-	13,783,817	-
Restricted assets - cash and cash equivalents	-	86,994,499	8,952,084
Capital assets			
Depreciable property and equipment, net	22,365	15,729	7,929
Deferred issuance costs, net	-	3,864,579	-
Other assets	7,610	-	-
Total assets	$ 512,201	440,313,997	32,872,175
LIABILITIES			
Accounts payable and other liabilities	$ 39,594	431,854	179,281
Accrued payroll, fringe benefits and compensated absences	123,256	7,085	10,184
Accrued interest payable	-	815,253	-
Debt service payable	-	20,225,325	1,440,251
Funds held for others	-	55,176,496	7,281,360
Due to other state agencies	184,708	-	364,614
Due to other funds	-	-	-
Bonds payable, current	-	18,696,000	-
Total current liabilities	347,558	95,352,013	9,275,690
Bonds payable, long-term	-	236,833,363	-
Total liabilities	347,558	332,185,376	9,275,690
NET ASSETS			
Invested in capital assets	22,365	15,729	7,929
Restricted for:			
Debt service	142,278	36,078,349	23,588,556
Program funds	-	71,255,152	-
Unrestricted	-	779,391	-
Total net assets	164,643	108,128,621	23,596,485
Total liabilities and net assets	$ 512,201	440,313,997	32,872,175

See Notes to Financial Statements.

GRIP Administrative Fund	Primary Care Capital Fund	Totals
$ -	-	45,319,092
-	-	1,951,709
-	-	3,036,590
600	-	3,029,573
308,194	-	308,194
-	-	-
308,794	-	53,645,158
-	5,664,211	312,377,608
-	-	13,783,817
-	2,230,797	98,177,380
-		
-	-	46,023
-	-	3,864,579
-	-	7,610
$ 308,794	7,895,008	481,902,175
$ -	-	650,729
126,462	-	266,987
-	-	815,253
-	13,487	21,679,063
-	460,750	62,918,606
-	-	549,322
-	-	-
-	-	18,696,000
126,462	474,237	105,575,960
-	-	236,833,363
126,462	474,237	342,409,323
-	-	46,023
-	5,209,613	65,018,796
-	2,211,158	73,466,310
182,332	-	961,723
182,332	7,420,771	139,492,852
$ 308,794	7,895,008	481,902,175

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund
Interest earnings			
Interest on loans	$ -	11,195,162	476,795
Interest on investments	3,688	793,237	231,387
Total interest earnings	3,688	11,988,399	708,182
Interest expense			
Debt service - interest expense	-	8,972,738	-
Net interest earnings	3,688	3,015,661	708,182
Provision for loan losses	-	-	-
Net interest earnings after provision for loan losses	3,688	3,015,661	708,182
Non-interest earnings			
Tax revenue	-	18,368,369	-
Federal grant revenue	-	-	2,588,550
Revolving loans grant revenue	-	-	1,779,798
Administrative fees	823,047	-	-
Total non-interest earnings	823,047	18,368,369	4,368,348
Non-interest expense			
Grant expense	-	3,054,734	-
Bond issuance costs	44,532	(157,884)	-
Administrative fee	-	-	34,345
Professional services	57,776	640,674	42,257
Salaries and fringe benefits	905,957	350,398	104,028
Technical set-aside expense	-	-	203,563
In-state travel	25,709	115	2,940
Out of state travel	9,544	400	2,121
Maintenance and repairs	11,062	6,121	1,881
Supplies	20,873	2,157	1,510
Operating costs	103,577	66,567	21,682
Depreciation	15,344	8,763	4,859
Total non-interest expense	1,194,374	3,972,045	419,186
Total non-interest earnings (expense) before transfers	(371,327)	14,396,324	3,949,162
Transfers			
Transfers in (out)	543,514	456,307	-
Transfers from (to) other state agencies	-	-	(2,345,384)
Transfers from (to) other governmental entities	-	(986,499)	-
Total transfers	543,514	(530,192)	(2,345,384)
Change in net assets	175,875	16,881,793	2,311,960
Total net assets - beginning, after transfer of State Building Purchase Fund to Governmental Fund	(11,232)	91,246,828	21,284,525
Total net assets - ending	$ 164,643	108,128,621	23,596,485

See Notes to Financial Statements.

GRIP Administrative Fund	Primary Care Capital Fund	Totals
$ -	-	11,671,957
-	152,937	1,181,249
-	152,937	12,853,206
-	-	8,972,738
-	152,937	3,880,468
	-	-
-	152,937	3,880,468
-	-	18,368,369
-	-	2,588,550
-	-	1,779,798
308,194	-	1,131,241
308,194	-	23,867,958
-	-	3,054,734
-	-	(113,352)
-	-	34,345
4,781	-	745,488
80,740	-	1,441,123
-	-	203,563
3,534	-	32,298
20,172	-	32,237
1,367	-	20,431
210	-	24,750
15,058	-	206,884
-	-	28,966
125,862	-	5,711,467
182,332	-	18,156,491
-	-	999,821
-	-	(2,345,384)
-	-	(986,499)
-	-	(2,332,062)
182,332	152,937	19,704,897
-	7,267,834	119,787,955
$ 182,332	7,420,771	139,492,852

NEW MEXICO FINANCE AUTHORITY
COMBINED STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund
Cash Flows From Operating Activities			
Cash paid for employee services	$ (859,997)	(349,382)	(102,499)
Cash paid to vendors for services	(276,541)	(577,779)	(288,764)
Bond issuance costs paid	-	(1,659,798)	-
Interest expense paid	-	(8,902,444)	-
Grants awarded	-	(3,054,734)	-
Tax revenue	-	17,356,789	-
Cash received from federal government for revolving loans	-	-	1,779,798
Interest income received	3,688	10,547,334	686,662
Administrative fees received	584,327	-	-
Net cash (used) provided by operating activities	(548,523)	13,359,986	2,075,197
Cash Flows From Non-Capital Financing Activities			
Operating transfers	543,514	456,307	-
Cash paid to subrecipients for services	-	-	(2,345,384)
Federal grant revenue received	-	-	2,791,652
Cash provided (used) by funds held for others	(1,864,171)	36,469,625	(2,174,795)
Net cash provided (used) by non capital financing activities	(1,320,657)	36,925,932	(1,728,527)
Cash Flows From Capital and Related Financing Activities			
Securities	-	825,820	
Loans funded	-	152,043,707	(1,779,798)
Loan payments received	-	(248,873,116)	751,056
Bonds issued	-	91,645,000	-
Payment of bonds	-	(18,447,780)	-
Fixed asset purchases	(21,061)	(16,468)	(7,404)
Net cash provided (used) by capital and related financing activities	(21,061)	(22,822,837)	(1,036,146)
Net increase (decrease) in cash and cash equivalents	(1,890,241)	27,463,081	(689,476)
Cash and restricted cash and cash equivalents - beginning of year	2,121,357	102,461,034	11,799,920
Cash and restricted cash and cash equivalents - end of year	$ 231,116	129,924,115	11,110,444
Reconciliation of operating income (loss) to net cash used by operating activities - operating income	$ 175,875	16,881,793	2,311,960
Adjustments to operating income			
Depreciation and amortization	15,344	(149,121)	4,859
Bad debt expense	-	-	-
Net transfers	(543,514)	(456,307)	-
(Increase) decrease in prepaids and receivables	(238,720)	(2,452,645)	(775,231)
Increase (decrease) in payables and other accrued liabilities	42,492	(463,734)	533,609
Net cash (used) provided by operating activities	$ (548,523)	13,359,986	2,075,197

GRIP Administrative Fund	Primary Care Fund	Totals
$ -	-	(1,311,878)
-	-	(1,143,084)
-	-	(1,659,798)
-	-	(8,902,444)
-	-	(3,054,734)
-	-	17,356,789
-	-	1,779,798
-	152,937	11,390,621
-	-	584,327
-	152,937	15,039,597
-	-	999,821
-	-	(2,345,384)
-	-	2,791,652
-	441,083	32,871,742
-	441,083	34,317,831
-	-	825,820
-	(1,000,000)	149,263,909
-	253,093	(247,868,967)
-	-	91,645,000
-	-	(18,447,780)
-	-	(44,933)
-	(746,907)	(24,626,951)
-	(152,887)	24,730,477
-	2,383,684	118,765,995
$ -	2,230,797	143,496,472
$ -	152,937	19,522,565
-	-	(128,918)
-	-	-
-	-	(999,821)
-	-	(3,466,596)
-	-	112,367
$ -	152,937	15,039,597

NOTE 1. ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act), is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer, the Secretary of the Department of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, the Secretary of the Environment Department, the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, shall appoint to the Authority the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state except as specifically provided in the New Mexico Finance Authority Act.

The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

Bonds and other obligations issued by the Authority under the provisions of the Act are not a debt or liability of the State or any subdivision thereof.

The Authority is a governmental entity in accordance with Governmental Accounting Standard Board Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NOTE 1. ORGANIZATION (CONTINUED)

The financial reporting entity as defined by GASB Statement 14 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 not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards.* The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Authority includes only one function (infrastructure financing).

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

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals on the business-type activities (Enterprise) fund statements match the business type activities column presented in the government-wide statements, since there are no reconciling items.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

The financial transactions of the Authority are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB Statement 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The Authority uses the following fund types:

Governmental Fund Types. The focus of governmental fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority.

Special Revenue Funds. The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund - State Building Program-Cigarette Tax. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act in an amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds or any payments for refunding or redemption premiums on the bonds and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Special Revenue Fund - Water and Wastewater Project Grant Fund. This fund was created with the passage of Senate Bill 662 during the 1999 Legislative Session. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1 NMSA 1978, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project and to pay administrative costs of the water and wastewater project grant program.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any unexpended or unencumbered balance remaining at the end of the fiscal year shall not revert to the State's general fund. There was no sale of bonds made for this program for the year ended June 30, 2004.

Special Revenue Fund - Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 legislative session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Projects Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Special Revenue Fund - Water and Wastewater Planning Grant Fund The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant will not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

Special Revenue Fund - Emergency Drought Water Program Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund – Behavioral Health Clinic. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund so as to ensure availability of health and safe teaching environments.

Special Revenue Fund – Economic Development. This fund was created with the passage of Senate Bill 932 – Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislature. The purpose of the fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

Debt Service Funds. The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs.

Debt Service Fund - Administrative Fee Revenue Program (TRIMS Project). Chapter 125, Laws of New Mexico 1997 was enacted to authorize the Authority to sell up to $33,709,800 of bonds for the purpose of financing the New Mexico Taxation and Revenue Department (NMTRD) information management systems project (TRIMS Project). The TRIMS Project is an integration and updating of on-line, multi-user systems that process taxation, motor vehicle tax and fee collections, revenue distributions and information processing by the NMTRD. Revenue from NMTRD's administrative fees is pledged to repay the bonds. The Authority issued $17,440,660 of Administrative Fee Revenue Bonds Series 1997A in September 1997. The Authority issued the remaining $16,269,140 Administrative Fee Revenue Bonds Series 1999A in September 1999.

Debt Service Fund - Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - Highway 44 Financing Fund. Series 1998A Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 1998A Bonds were issued by the Authority to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the NMFA and NMSHTD. $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds was issued on September 1, 1998. The Obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a revenue pledge, which consists of certain revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. The bond was defeased on May 20, 2004 and the fund was closed out.

Debt Service Fund - Forest Highway Forest Road Financing Fund. Series 2001 Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 2001 Bonds were issued to finance the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21) to the extent for funding as part of the Federal Lands Highway Program and the New Mexico Statewide Transportation Improvement Program by the New Mexico State Highway and Transportation Department (NMSHTD). The Series 2001 Bonds are payable Solely from certain of the Authority's rights to payments under a Loan Agreement (Series 2001 Loan Agreement) between the NMFA and NMSHTD. The obligations of NMSHTD under the Series 2001 Loan Agreement are payable solely from and secured by a pledge of the "Pledge Revenues," which consist of certain revenues received by or on behalf of NMSHTD pursuant to Chapters 1 and 20 of Title 12, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. The bond was defeased on May 20, 2004 and the fund was closed out.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - Workers' Compensation Financing Fund. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the American with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint powers agreement to accomplish this purpose. $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of each calendar quarter, after all current obligations and any sinking fund requirements are met shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - State Capitol Improvement Financing Fund. The laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a State building located adjacent to the state capitol in Santa Fe known as the New Mexico state library and for relocation-associated renovations in the state capitol. $510,000 of revenue bonds were issued on May 17, 1999, and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, NMFA issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B, the proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

Debt Service Fund - Insurance Department Financing Fund. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $1 million for the purpose of financing information and communication equipment, including computer hardware and software, for the New Mexico Department of Insurance. The Legislature imposed a three dollar ($3.00) surcharge on the annual continuation of appointment fees on approximately 60,000 insurance agents subject to the fees to provide security for the bonds. On April 18, 1996, the New Mexico Insurance Department requested the Authority to issue $525,000 of the authorized bonds for acquiring information and communication equipment. The

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

bonds were privately placed in a transaction that closed on May 23, 1996, and the proceeds were transferred to the New Mexico Department of Insurance. The pledged revenues are paid to the Authority. Pledged revenue in excess of debt service and related expenditures may be appropriated by the Legislature to the Department of Insurance for the acquisition of information and communication equipment.

Debt Service Fund - Court Automation Financing Fund. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $8.5 million for the purpose of financing acquisition of court automation systems for the state court system, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. $8.5 million of court automation fee revenue bonds were issued on June 25, 1996. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provisions of the motor vehicle code involving the operation of a motor vehicle. The pledged revenues are paid to the Authority. Pledged revenues in excess of debt service and related expenditures may be appropriated by the Legislature to the Administrative Office of the Courts for the acquisition of court automation systems. The Bond was defeased during 2001.

Debt Service Fund - State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping, and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of (1) purchasing the National Educational Association Building on South Capitol Street in Santa Fe, New Mexico, (2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico and (3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may included the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund –UNM Health Sciences. Chapter 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to (i) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center and (ii) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

Proprietary Fund Types. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business type activity accounting. The only proprietary fund types the Authority has are enterprise funds.
Enterprise Funds. Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The enterprise funds are as follows:

Enterprise Fund - Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978.

Of the GGRT revenues directed to the Authority's Public Project Revolving Fund, which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater grant project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund, and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities or "leveraged" by pledging the revenue

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

stream to the issuance of bonds and granting, or lending, the bond proceeds. All projects to be financed must be approved by the Legislature.

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) creates the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority.

The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities.

Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and, 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health, and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority for assistance to the Department and administration of the Primary Care Capital Fund.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Fund –GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B, and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of twenty-five basis points on the outstanding debt for: issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the New Mexico Department of Transportation. See note 16 for further detail.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authorities enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government-wide financial statements and the proprietary financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Accrual. The enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, 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. The Authority was unable to reasonably estimate the amount of revenue earned but not yet received by the Taxation and Revenue Department by the June 30 year-end. As a result, the amount is not included as revenue in the financial statements.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer are invested by the New Mexico State Treasurer in the “overnight” repurchase program.

Interest is credited to the various programs based on the programs average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statues require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State or as

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

Securities. The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds which are recorded at cost which approximates market value.

Loans. Loans are stated at their principal amount. Interest on loans is accrued for based on the daily principal balance outstanding except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on nonaccrual status.

Allowance for Loan Losses. The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors; including collateral value, past loan loss experience, current facts, and economic conditions. The allowance is based on management's estimates and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, any necessary adjustments are reported in income in the period they become known.

Capital Assets. Property, furniture and equipment purchased or acquired at a value of $1,000 or greater are capitalized. Property, furniture and equipment are stated at cost less accumulated depreciation. Furniture and equipment purchases with useful lives over one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of one year or less, and maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred. The Authority does not have any internally developed software.

Income Taxes. The Authority is a tax exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

Accrued Compensated Absences Payable. Full-time employees are entitled to ten days annual leave with four years or less employment with the Authority. Employees with more than four years receive fifteen days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Full-time employees are entitled to twelve days of sick leave each fiscal year. Part-time employees accrue annual leave and sick leave on a prorated basis based on the number of hours they work. A full-time employee may receive cash payment at a rate of 50% of their hourly wage for any accrued sick leave in excess of forty hours up to a maximum of one hundred twenty hours on the first full pay period in July. An employee may accrue a maximum of 1,040 hours. Accumulated sick leave is not compensated on termination of employment unless the employees retire. Then the employee can be paid for accrued sick leave in the excess of 600 hours at 50% of their hourly wage rate, not to exceed 440 hours. Accrued compensated absences are recorded in the operating fund.

Budgets and Budgetary Accounting. The Authority prepares a budget for the operations fund and for the DWRLF. Theses budgets are approved by the Authority's board but are not legally binding. The budgets are also amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the accounting on a budgetary basis and GAAP basis are that capital outlay is a budgetary expenditure and depreciation expense is not a budgetary expenditure.

Restricted Assets. Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "cash and cash equivalents held for others by the Authority" account is used to segregate bond proceeds that will be used for specific purposes as required by legislation. "Cash and cash equivalents pledged for repayment of bonds and bond expenses held by trustee" is used to report funds set aside for debt repayment, bond issuance, and other costs by the Authority.

Cash Flows. For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Discounts, Premiums and Issuance Costs. In governmental fund types, bond discounts, premiums and issuance costs are recognized in the current period. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity. Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

Net Assets. The government-wide and business types Fund Financial Statements utilize a net asset presentation. Net Assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets which have third-party (statutory, bond covenant or granting agency) limitations on their use when there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

Use of Estimates. The preparation of the 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 amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund and Interagency Transactions. Interfund and Interagency Transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other Interfund transactions, except reimbursements and administrative fee transactions are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. Interagency transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE

Funds held for other and short-term investments are held at the trustees in the name of the applicable government entity and the Authority's. The following is a reconciliation of cash and cash equivalents to the financial statements.

Cash and cash equivalents	Book Balance	Bank Balance
Government – Wide Statement of Net Assets		
State Treasurer Local Government Investment Pool	$ 140,587,116	140,382,546
Money market accounts invested in American Performance U.S. Treasury Fund	116,824,105	116,824,105
Repurchase agreements	6,548,450	6,548,450
Wells Fargo operating accounts	231,116	237,341
	$ 264,100,788	263,992,442
Agency Fund		
State Treasurer Local Government Investment Pool	$ 92,017,680	92,017,680
Money market accounts invested in Citigroup U.S. Treasury Fund	587,324,025	587,324,025
State Treasurer Repurchase Agreement	$ 100,187,128	100,187,128
	$ 779,528,833	779,528,833

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes deposits that are insured. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 represents deposits that are required by state statutes to be collateralized at a minimum level of 50%. All of the Authority's collected balances in bank accounts are invested in repurchase agreements. Deposits with the State Treasurer are not required to be categorized.

	Category 1	Category 2	Category 3	Bank Balance	Book Balance
Wells Fargo operating accounts	$	237,341		237,341	231,116

The New Mexico State Treasurer's Office is responsible to ensure that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE (CONTINUED)

categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered investments, or for which securities are held by the counter party's trust department or agent in the Authority's name. The Authority does not have any Category 1 investments. The Authority does not have any Category 2 investments. Category 3 represents uninsured and unregistered investments, not held in the Authority's name. The Authority does not have Category 3 investments.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The source of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts which 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. The Authority's investments are held by financial institutions in the Authority's name.

NOTE 4. LOANS RECEIVABLE

Loan receivable balances consist of the following at June 30, 2004:

Entity	Loan Balance
Proprietary funds	
Public Project Revolving Loan Fund	$ 288,021,506
Allowance for loan losses	(859,156)
	287,162,350
Primary Care Capital Fund	5,664,211
Drinking Water State Revolving Loan Fund	19,551,047
	312,377,608
Debt service funds	
Behavioral Health Clinic Fund	500,000
	$ 312,877,608

Public Project Revolving Loan Fund

The Public Project Revolving Fund loans receivable balance at June 30, 2004, is $288,021,506 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 80,731,423	40,223,321	120,954,744
July 1, 2009 to June 30, 2014	95,792,349	36,963,985	132,756,334
July 1, 2014 to maturity	111,497,734	28,400,322	139,898,056
	$288,021,506	105,587,628	393,609,134

An analysis for the allowance for loan losses is as follows:

Balance, beginning of year	$ 859,156
Provision for loan losses	-
Balance, end of year	$ 859,156

Management considers non-accrual loans to be impaired. As of June 30, 2004 there were no non-accrual loans. Based on management's analysis, there were no other impaired loans as of June 30, 2004.

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Primary Care Capital Fund. Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 2,326,937	721,212	3,048,149
July 1, 2009 to June 30, 2014	2,620,233	407,470	3,027,703
July 1, 2014 to maturity	717,041	18,910	735,951
	$ 5,664,211	1,147,592	6,811,803

No allowance for uncollectible loans has been established as the primary care facilities and loan repayments are secured by applicable sources of pledged receivables.

Drinking Water State Revolving Loan Fund. Terms for the Drinking Water State Revolving Loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedule after year end:

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 5,449,706	2,608,743	8,058,449
July 1, 2009 to June 30, 2014	5,861,851	1,591,140	7,452,991
July 1, 2014 to maturity	8,239,490	984,553	9,224,043
	$ 19,551,047	5,184,436	24,735,483

No allowance for uncollectible loans has been established as the Drinking Water Loans are secured by applicable sources of pledged receivables.

Behavioral Health Clinic Fund. The Behavioral Health Clinic loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedule after year end:

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 162,545	64,384	226,929
July 1, 2009 to June 30, 2014	176,326	36,989	213,315
July 1, 2014 to maturity	161,129	9,555	170,684
	$ 500,000	110,928	610,928

No allowance for uncollectible loans has been established as the Behavioral Health Clinic loan is secured by applicable sources of pledged receivables.

NOTE 5. SECURITIES

At June 30, 2004, securities for the Public Project Revolving Fund (PPRF) consisted of $12,639,137 Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, and 1998B), $15,186 of Jemez Springs Bonds, and $1,129,494 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resource Bonds have interest rates ranging from 3% to 5.95% with final maturity on June 1, 2017. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45% with a final maturity on May 1, 2012. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19% with final maturity on May 1, 2008. The securities are carried at cost which approximates market value.

The following is a summary of future maturity and interest to be collected based on contractual maturity of the securities after year-end.

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 5,080,921	3,027,052	8,107,973
July 1, 2009 to June 30, 2014	5,293,634	1,731,744	7,025,378
July 1, 2014 to maturity	3,409,262	357,300	3,766,562
	$ 13,783,817	5,116,096	18,899,913

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2004 consist of the following:

	Due To	Due From
Governmental Funds		
Water Trust Board	$ -	67,960
Emergency Drought Relief	-	3,008
	-	70,968
Enterprise Fund		
Operating Fund	70,968	-
	$ 70,968	70,968

The transfers between funds for the year ended June 30, 2004 include a transfer from the Cigarette Tax Fund to the Operating Fund to fund the operations of the Authority in the amount of $2,471,914.

NOTE 7. DUE TO /DUE FROM OTHER STATE AGENCIES

The following Enterprise Fund owed the following amounts to other state agencies at June 30, as follows:

The Drinking Water Revolving Loan Fund owed $364,614 to Environment Department for technical set-asides.

The following Enterprise Fund had amounts owed to the fund from other state agencies at June 30, as follows:

The GRIP Administrative Fund had $308,194 owed to the fund from the New Mexico Department of Transportation for administrative fees on the New Mexico Department of Transportation (NMDOT) Series 2004A, B, and C bond issues completed by the Authority on behalf of the NMDOT.

NOTE 8. TRANSFERS TO OTHER STATE AGENCIES

The following debt service funds transferred these amounts to other state agencies for the year ended June 30, 2004:

The Worker Compensation Financing Fund transferred $778,335 in order to rebate excess debt service funds back to the entity.

The Insurance Department Financing Fund transferred $758,095 in order to rebate excess debt service funds back to the entity.

The Administrative Fee Revenue Program Fund (TRIMS Project) transferred $20,008 in order to rebate excess debt service funds back to the entity. The bond issue related to this fund was paid off in fiscal year 2003.

The Metro Court Financing Fund transferred $1,500,000 in order to rebate excess debt service funds back to the Bernalillo County Metro Court. Additionally, $18,402,751 was transferred to the Metro Court Administrator for the construction and equipping of the new Bernalillo County Metropolitan Court Building and Metropolitan Court Parking Facility.

The State Building Purchase Fund transferred $16,126,214 in program fund requests to various entities and a $4,187,748 reversion to New Mexico State University.

The UNM Health Sciences Fund transferred $9,313,000 in program fund requests to the entity.

The Court Automation Financing Fund transferred $32,037 in order to rebate excess debt service funds back to the entity.

NOTE 8. TRANSFERS TO OTHER STATE AGENCIES (CONTINUED)

The following enterprise fund transferred these amounts to other state agencies for the year ended June 30, 2004:

The Drinking Water Revolving Loan Fund transferred $2,345,384 to the Environment Department for technical assistance performed in the Drinking Water Revolving Loan Fund.

NOTE 9. CAPITAL ASSETS

The capital asset activity for the year is as follows:

	Balance July 1, 2003	Additions	Deletions	**Balance June 30, 2004**
Enterprise Funds				
Depreciable assets				
Furniture, fixtures and equipment at historical cost	$ 255,789	44,933	-	300,722
Net fixed				
Accumulated depreciation:				
Furniture, fixtures and equipment	(225,733)	(28,966)	-	254,699
Capital assets, net	$ 30,056	15,967	-	46,023

Depreciation expense was $15,344 in the Operating Fund, $8,763 in the PPRF Funds and $4,859 in the Drinking Water Revolving Loan Fund for the year ended June 30, 2004.

	Balance July 1, 2003	Additions	Deletions	**Balance June 30, 2004**
Governmental Funds				
Depreciable assets				
Furniture, fixtures and equipment at historical cost	$ -	36,424	-	36,424
Net fixed				
Accumulated depreciation:				
Furniture, fixtures and equipment	-	(13,414)	-	(13,414)
Capital assets, net	$ -	23,010	-	23,010

Depreciation expense was $6,196 in the Water/Wastewater Grant Fund, $4,984 in the Water Trust Fund, $876 in the Emergency Drought Relief Fund, and 1,358 in the Water Planning Grant Fund for the year ended June 30, 2004.

NOTE 10. BONDS PAYABLE

Bonds outstanding as of June 30, 2004, for the Authority's enterprise funds consist of:

Public Project Revolving Funds (PPRF).

PPRF Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A Bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investment securities.

PPRF Series 1999A, 1999B, 1999C, and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax-exempt) and Series 1999 and 1999D (taxable) in the aggregate amount principal amounts of $13,135,000, $3,025,000, $2,265,000, and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Loan Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

PPRF Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish, and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

PPRF Series 2000B and C. On September 1, 2000 the Authority issued $7,670,000 of Public Project Revolving Fund series B and $28,850,000 series C bonds. The series 2000B and C were issued to reimburse the Public Project Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2000B and C bonds.

PPRF Series 2002A. On July 2, 2002 the Authority issued $55,610,000 of Public Projects Revolving Fund series 2002A bonds. The series 2002A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2002A bonds.

NOTE 10. BONDS PAYABLE (CONTINUED)

PPRF Series 2003A. On April 3, 2003 the Authority issued $39,945,000 of Public Projects Revolving Fund series 2003A bonds. The series 2003A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2003A bonds.

PPRF Series 2003B. On June 5, 2003 the Authority issued $25,370,000 of Public Projects Revolving Fund series 2003B bonds. The series 2003B were issued to (i) refund the Authority's outstanding Public Projects Revolving Fund Revenue Bonds, Series 1995A maturing on and after June 1, 2006 and Public Projects Revolving Fund Revenue Bonds, Series 1996A maturing on and after Jun 1, 2007, and (ii) finance the costs of issuance of the Series 2003B bonds and the refunding of the Series 1995A and 1996A bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Projects Revolving Fund series 2004A Revenue bonds. The series 2004A were issued to (i) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004A bonds.

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Projects Revolving Fund series 2004B Revenue bonds. The series 2004B were issued to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004B bonds.

Bonds outstanding as of June 30, 2004, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds are for the designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

NOTE 10. BONDS PAYABLE (CONTINUED)

Insurance Department Financing Fund. On May 23, 1996, the Authority issued $525,000 of New Mexico Finance Authority Insurance Department Surcharge Revenue Bonds, which *was* refunded on December 1, 1998 and reissued at $400,000, to finance information and communication equipment for the New Mexico Department of Insurance. A $3 surcharge on insurance agent's annual fee is the only pledged revenue source for the repayment of the bonds and is paid to the Authority. The bond was paid off during 2003 and the fund closed out in 2004.

Administrative Fee Revenue Program Fund (TRIMS Project) Series 1997A and 1999A. On September 11, 1997 and September 20, 1999, the Authority issued $17,440,660 and $16,269,140 of New Mexico Finance Authority (TRIMS Project) revenue bonds, respectively. The bonds were issued to finance an information management system to assist in tax collections to be used by the New Mexico Taxation and Revenue Department (NMTRD). The principal and interest on the bonds are payable solely from and secured solely by the pledged revenues, which include revenues from administrative fees payable to and withheld by NMTRD from collections of municipal and country local option gross receipts taxes, and administrative fees from collections of solid waste assessment fees, boat excise tax and registration fees, tax intercept payments and water conservation fees, as well as proceeds of bonds and investment earnings on the proceeds and revenues. The bond was paid off during 2003 and the fund closed out in 2004.

Highway 44 Financing Fund. On September 1, 1998, the Authority issued $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds. The bonds were issued to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico State Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the Authority and NMSHTD. The obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a pledge, which consist of revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. This bond was defeased on May 20, 2004 and the fund was closed out in 2004.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The Bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

NOTE 10. BONDS PAYABLE (CONTINUED)

Federal Highway Forest Road Financing Fund. On February 1, 2001, the Authority issued $18,535,000 of New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds, Series 2001. The Bonds were issued for the purpose of financing the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21). This bond was defeased on May 20, 2004 and the fund was closed out in 2004.

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds. Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds are being issued by the NMFA for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds are being issued pursuant to the bond resolution with a lien on the Pledged Court Facilities Revenues on parity with the liens thereon of the $21,600,000 New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A and the $11,400,000 New Mexico Finance Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

NOTE 10. BONDS PAYABLE (CONTINUED)

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued 2,904,000 aggregate principal amount of its Equipment Program Certificates of participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to thirteen local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds Series 2002A were issued on December 15, 2001, for the purpose of financing the costs of acquiring, constructing, equipping, and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

UNM Health Sciences Fund. Cigarette Tax series 2004A Revenue bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax series 2004A Revenue bonds (UNM Health Services Center Project). The series 2004A were issued to (i) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico, and (ii) finance the costs of issuance of the Series 2004A bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities. Total interest expense incurred on bonds in the enterprise funds, debt service funds, and special revenue funds were $8,972,738, $7,571,074 and $93,300, respectively, for the year ended June 30, 2004.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds payable and related premium/discount balances consist of the following at June 30, 2004:

	Amount	Interest Rate	Final Maturity
Enterprise funds			
PPRF 1997A	$ 6,270,000	4.25-4.90	June 1, 2017
PPRF 1999A, B, C and D	16,215,000	3.30-6.30	June 1, 2018
PPRF 2000A	2,755,000	4.10-5.30	June 1, 2009
PPRF 2000B and C	16,474,838	4.75-5.50	June 1, 2030
PPRF 2002A	40,750,000	2.00-5.00	June 1, 2026
PPRF 2003A	36,312,000	2.00-4.75	June 1, 2032
PPRF 2003B	41,540,000	2.00-4.00	June 1, 2021
PPRF 2004A	42,105,000	2.25-5.85	June 1, 2022
PPRF 2004B	49,540,000	3.00-5.13	June 1, 2022
Bond premium and discount, net on enterprise funds	3,567,525		
	255,529,363		
To be paid out of Debt Service funds			
Special Cigarette Tax Revenue Bond	1,200,000	4.80-5.25%	June 1, 2006
Workers Compensation Financing Fund	3,310,000	5.00-5.60	Sept. 1, 2016
State Capitol Improvement Financing Fund	7,455,000	7.00	March 15, 2015
UNM Health Sciences	39,035,000	5.00-5.60	Sept. 1, 2016
Equipment Loan Fund	2,058,000	4.50-6.30	Various
Metro Court	54,685,000	4.00-5.00	June 1, 2021
State Building Purchase Fund	31,435,000	1.65-6.25	June 15, 2025
	139,178,000		
Bond premium and discount, net on debt service funds	4,351,673		
	143,529,673		
Total	$ 399,059,036		

NOTE 10. BONDS PAYABLE (CONTINUED)

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

	Principal	Interest	Total
2005	$ 32,418,931	17,128,892	49,547,823
2006	26,372,715	16,339,533	42,712,248
2007	25,939,154	15,423,274	41,362,428
2008	24,642,553	14,391,486	39,034,039
2009-2013	117,511,193	57,786,033	175,297,226
2014-2018	95,151,718	32,654,555	127,806,273
2019-2023	56,554,640	13,271,415	69,826,055
2024-2028	18,101,402	2,599,364	20,700,766
2029-2032	2,325,924	397,494	2,723,418
2033	40,806	2,050	42,856
	$ 399,059,036	169,994,096	569,053,132

The bonds payable and the related premium/discount activity for the year are as follows:

	Balance July 1, 2003	Additions	Deletions	**Balance June 30, 2004**
Enterprise Funds	$215,224,046	94,843,764	(54,538,447)	**255,529,363**
Debt Service Funds	182,144,321	41,084,291	(79,698,939)	**143,529,673**
	$397,368,367	135,928,055	(134,237,386)	**399,059,036**

The following bonds (more fully disclosed in note 16) were issued by the Authority in an agency capacity and are not included in the Authority's financial statements:

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation series 2004A Revenue bonds. The series 2004A were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Refunding Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation series 2004B Refunding Revenue bonds. The series 2004B were issued to provide funds to refund and restructure certain outstanding bonds of the NMFA and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and

NOTE 10. BONDS PAYABLE (CONTINUED)

are not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Refunding Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation series 2004C Refunding Revenue bonds. The series 2004C were issued to provide funds to refund and restructure certain outstanding bonds of the NMFA and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

NOTE 11. OPERATING LEASES

The Authority is committed under various lease agreements for office space, copying equipment and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2004 amounted to approximately $132,000. Future minimum lease payments for these leases are as follows:

Year Ending June 30	
2005	$ 132,196
2006	7,525
	$ 152,422

NOTE 12. RETIREMENT PLAN

The Authority had established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $99,057, $104,809, and $91,277, for the years

NOTE 12. RETIREMENT PLAN (CONTINUED)

ended June 30, 2004, 2003, and 2002, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2004 Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

Statement of Fiduciary Net Assets

ASSETS	
Cash	$ 46,674
Self directed accounts (cash and investments)	466,591
Participant loan receivable	17,013
Total assets	$ 530,278
NET ASSETS	
Pension plan participants' benefits	$ 530,278

Statement of Changes in Net Assets:

ADDITIONS	
Investment earnings	$ 2,589
Employer contributions	99,057
Employee contributions	37,136
Total additions	138,781
DEDUCTIONS	
Distributions to participants	74,347
Investment expenses	5,413
Total deductions	79,760
Change in net assets	59,021
Net assets – beginning	471,257
Net assets – ending	$ 530,278

NOTE 13. CONTINGENCIES

The Authority is exposed to various risks of loss for which the Authority carries insurance (Auto; Employee Fidelity Bond; General Liability, Civil Rights; Property; and Worker's Compensation) with the State of New Mexico Risk Management Division and with private insurance companies.

The Authority is not subject to any legal proceedings, claims or liabilities at June 30, 2004.

NOTE 14. COMPENSATED ABSENCES

During the year ended June 30, 2004, the following changes occurred in the compensated absences liabilities:

Balance July 1, 2003	Increase	Decrease	Balance June 30, 2004
$ 102,368	112,300	62,010	152,658

The portion of compensated absences due after one year is not material, and therefore, not presented separately.

NOTE 15. RESTATEMENT/RECLASSIFICATION

A prior period restatement of $1,554,477 was recorded to correct an overstatement of tax revenue in the Equipment Loan Fund in the 2003 financial statements.

The State Building Fund Program was reclassified from an Enterprise Fund to a Debt Service Fund as a result of a change in facts and circumstances in 2004. This resulted in a reclassification of equity of $502,451 due to the differing accounting treatment applicable to the two funds types with respect to the costs of issuance, interest payable and bond premium associated with the bond. In addition, the reclassification resulted in an additional $32,502,205 added to fund balance as the bond payable was no longer recorded in the fund financial statements.

NOTE 16. AGENCY TRANSACTIONS

BOND ISSUES

The Authority, on behalf of the New Mexico Department of Transportation (NMDOT), issued $700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A in May 2004. The gross proceeds to the Authority were $738,787,815 including $43,556,815 of an original issue premium. The cost of issuance including underwriter fees was $6,368,367. The Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and the NMDOT has determined to be necessary or desirable.

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15th. Interest with rates ranging from 3.8% to 5.25% per annum, is payable semi-annually on June 15th and December 15th through the year 2024.

The Authority, on behalf of the NMDOT, issued $237,950,000 and $200,000,000 (NMFA) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C in May 2004. The gross proceeds to the NMFA for both issuances were $451,069,205 including $16,347,187 of an original issue premium. The cost of issuance including underwriter fees was $4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The $237,950,000 Series 2004B Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the Authority and the Commission.

The NMDOT is responsible for the Authority issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15th. Interest with rates ranging from 2% to 5% per annum, is payable semi-annually on June 15th and December 15th through the year 2014.

NOTE 16. AGENCY TRANSACTIONS (CONTINUED)

The Series 2004C Bonds are special, limited obligations of the NMDOT payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C Bonds or which may hereafter by issued through the Authority. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

The Department is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15th with interest payable semi-annually on June 15th and December 15th through the year 2023. Interest is fixed at 3.393 % based on a swap agreement in place at June 30, 2004.

For the year ended June 30, 2004, the Authority has recorded $308,794 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2004, the Authority has $779,528,833 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

REFUNDING

The Authority, on behalf of the NMDOT, issued the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase US governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. On June 30, 2004, $381,835,000 of bonds outstanding is considered defeased.

INTEREST RATE SWAPS

Objective of the interest rate swaps. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2004, the Authority, on behalf of NMDOT, entered into interest rate swap agreements in connection with its $200 million 2004 Series C variable interest rate on the bonds. The intention of the swap was to effectively change the variable rate revenue on the bonds to a synthetic fixed rate.

NOTE 16. AGENCY TRANSACTIONS (CONTINUED)

The Authority, on behalf of the NMDOT, entered into forward-starting interest rate exchange agreements totaling $220,000,000. These agreements were entered into for the purpose of hedging the exposure of the NMDOT against interest rate fluctuations arising from the variable rates borne by variable rate bonds to be issued in the future.

Under the Forward Starting Swap Agreements, the Authority, on behalf of NMDOT, will be the fixed rate payor, paying the relevant Forward-Starting Counterparty a fixed rate of 4.732% per annum on the relevant notional amount beginning on December 15, 2006, and the Forward-Starting counterparty's amount beginning on December 15, 2006. There can be no assurance that the variable rate bond will be issued in the future, that such bonds will be in a principal amount equal to the aggregate notional amount of the Forward-Starting Swap Agreements or that the actual rate payable on such bonds will be the same as that payable by the relevant Forward-Starting Counterparty on the Forward-Starting Swap Agreements. If the actual rate payable on such bonds is less than that payable by the relevant Forward-Starting Counterparty, the NMDOT will need to use more Pledged Revenues to make the relevant payment than it would had it not entered into the relevant Forward-Starting Swap Agreement. The stated termination date under each Forward-Starting Swap Agreements will decline over the terms of the Forward-Starting Swap Agreements through December 14, 2026.

Terms. The Bonds and the $200 million swap agreements mature on June 15, 2024, and the swaps' notional amount of $200 million matches the $200 million variable-rate bonds. The swaps were entered at the same time the bonds were issued. Starting in fiscal year 2023, the notional value of the swaps and the principal amount of the associated debt will decline. Under the swap, the Authority, on behalf of the NMDOT, pays the counterparties a fixed payment of 3.934% and receives a variable payment computed as 68% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable-rate coupons are based on The Bond Market Association Municipal Swap Index (BMA).

Fair value. Because interest rates have declined since execution of the swaps, the swaps including the Forward-Starting interest rate swap agreements had a negative fair value of approximately $12,786,000 as of June 30, 2004. The swaps' negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds creating a lower synthetic interest rate. Because the interest rate on the NMDOT's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

NOTE 16. AGENCY TRANSACTIONS (CONTINUED)

Credit risk. As of June 30, 2004, the Authority, on behalf of the NMDOT, was not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority, on behalf of the NMDOT, would be exposed to credit risk in the amount of the derivatives' fair value. The swap counterparties were rated not less than Aa3 from Moody's investor Service and not less than AA-from Standard & Poor's (S&P) as of June 30, 2004. To mitigate the potential for credit risk, if the counterparty's credit quality falls below BBB-from S&P or Baa3 from Moody's Investor Services, the fair value of the swaps will be fully collateralized by the counterparties with US government securities. Collateral would be posted with a third-party custodian.

Basis risk. The swaps exposes the Authority, on behalf of the NMDOT, to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.934% and the synthetic rate as of June 30, 2004 of 4.2252%. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.05%, whereas 68% of LIBOR was 1.6%.

Termination risk. The Authority, on behalf of the NMDOT, or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Authority, on behalf of the NMDOT if the counterparty's credit quality rating falls below "BBB-1" from S&P or "Baa3" as issued by Moody's Investors Service. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swaps have a negative fair value, the Authority, on behalf of the NMDOT, would be liable to the counterparties for a payment equal to the swaps' fair value.

Swap payments and associated debt. Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates at June 30, 2004 remain the same* for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE 17. SUBSEQUENT EVENTS

After June 30, 2004, the Authority issued the following PPRF Direct Loans, Federal Drinking Water Loans, Water Wastewater Grants, Planning Fund Grants, and Primary Care Loans:

	Closing Date	Amount
PPRF Cash Loans		
City of Albuquerque Equipment Acquisition Project	7/13/04	$ 5,800,000
Dexter Consolidated School District Building Project	7/23/04	520,000
Village of Angel Fire Road Improvement Project	8/6/04	1,105,557
Town of Bernalillo Wastewater Project	8/6/04	555,556
Farmington Municipal School District Building Project	8/13/04	4,500,000
Village of Grady Equipment Acquisition Project	8/20/04	222,223
Town of Carrizozo Equipment Acquisition Project	8/20/04	30,000
City of Rio Rancho Equipment Acquisition Project	8/20/04	215,556
Des Moines Municipal School District No. 22 Infrastructure Project	8/20/04	175,000
City of Santa Rosa Equipment Acquisition Project (Interim)	8/20/04	119,880
Cuba Independent School District Building Project	8/27/04	450,000
Guadalupe County Equipment Acquisition Project	8/27/04	444,445
Guadalupe County Building Project	8/27/04	458,132
Colfax County - Philmont Fire District No. 1 Equipment Acquisition Project	8/27/04	311,112
Colfax County - French Tract District No. 5 Equipment Acquisition Project	8/27/04	166,667
Mosquero Municipal School District No. 5 Building Project	8/27/04	260,000
Village of Logan Equipment Acquisition Project (Interim)	8/27/04	70,000
East Rio Arriba SWCD Equipment Acquisition Project (Interim)	8/27/04	9,748
City of Albuquerque Building Project	9/9/04	5,700,000
Valencia County - Tome Adelino FD Equipment Acquisition Project	9/17/04	130,000
City of Raton Equipment Acquisition Project	9/17/04	73,000
Springer Municipal School District No. 24 Education Technology Project	9/17/04	250,000
Valencia County - El Cerro VFD Equipment Acquisition Project	9/17/04	194,445
Jicarilla Apache Utility Authority Water Project	9/20/04	11,415,429
City of Truth or Consequences Electric Project	9/20/04	1,625,693
City of Santa Fe Infrastructure Project	9/24/04	5,107,652
City of Santa Fe	9/24/04	579,000
City of Aztec Building Project	9/24/04	1,679,942
New Mexico State Fair/Expo New Mexico Infrastructure Project	9/30/04	5,555,556
Miners' Colfax Medical Center Building Project	10/8/04	10,822,812
City of Las Cruces Infrastructure Project	10/8/04	418,724
Albuquerque Bernalillo County WUA Water Project	10/13/04	108,415,000
Otero County Vehicle Acquisition Project	10/15/04	52,000
Carrizozo Municipal School District No. 7 Building Renovations	10/29/04	150,000
Hatch Valley Public Schools Building Renovations	10/29/04	450,000
		$ 168,033,129
Emergency Drought Relief		
Blanco MDWC and MSWA Emergency Water Project	8/20/04	$ 255,000
		$ 255,000

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 17. SUBSEQUENT EVENTS (CONTINUED)

	Closing Date	Amount
Federal Drinking Water		
Roosevelt County Water Cooperative, Inc. Water Project	9/17/04	$ 297,710
City of Santa Fe Buckman Supplemental Wells #10-13	9/24/04	7,070,000
Albuquerque Bernalillo County WUA Water Project	10/13/04	10,000,000
Total Federal Drinking Water		$ 17,367,710
Planning Grants		
White Cliffs MDWCA	7/16/04	$ 25,000
Coyote Creek MDWUA	7/23/04	25,000
Ensenada Mutual Domestic Water Association	7/30/04	11,250
Town of Elida	8/20/04	25,000
Total Planning Grants		$ 86,250
Water Wastewater Grants		
Village of Grady Water Project	7/23/04	$ 47,250
Dona Ana MDWCA Wastewater Project	7/23/04	400,000
Village of Floyd Water Storage Tank	8/20/04	172,770
City of Sunland Park Emergency Water Project	8/20/04	400,000
Gonzales Ranch MDWCA Water Project	8/27/04	428,490
Chamberino MDWC Water Project	10/22/04	21,563
Total Water Wastewater Grants		$ 1,470,073
Water Project Fund/Water Trust Board		
Taos Valley Regional Water San Juan/Chama Diversion Project	7/23/04	$ 1,700,000
Edgewood SWCD Watershed Restoration and Management	7/1/04	160,000
Santo Domingo Pueblo	7/22/04	1,148,000
Santo Domingo Pueblo	7/22/04	2,587,000
Middle Rio Grand Endangered Species Program	8/6/04	1,500,000
Ute Creek Soil and Water	9/3/04	328,279
Total Water Project Fund/Water Trust Board		$ 7,423,279
Cigarette Tax Revenue Bonds Series 2004B	9/22/04	$ 10,000,000
Total Cigarette Tax Revenue Bonds Series 2004B		$ 10,000,000
PPRF Revenue Bonds Series 2004C	10/13/04	$ 168,890,000
Total PPRF Revenue Bonds Series 2004C		$ 168,890,000

NEW MEXICO FINANCE AUTHORITY
AGENCY FUND
YEAR ENDED JUNE 30, 2004

ASSETS		
Cash at Trustee		
Program funds	$	737,181,359
Expense funds		342,153
Bond reserve funds		42,005,321
Total assets	$	779,528,833
LIABILITIES		
Accounts payable	$	283,048
Debt service payable		42,064,426
Funds held for the New Mexico Department of Transportation		737,181,359
Total liabilities	$	779,528,833

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2004

	Administration Fee Revenue Program (TRIMS Project)	Behavioral Health Clinic	Court Automation Financing Fund	Economic Development
ASSETS				
Cash and cash equivalents	$ -	-	-	-
Tax revenue receivable	-	-	-	-
Other assets	-	-	-	-
Due from other funds	-	-	-	-
Due from other state agencies	-	-	-	-
Loans receivable	-	500,000	-	-
	-	500,000	-	-
Restricted Assets				
Cash and cash equivalents held for others by trustee				
Debt service	-	23,501	-	-
Bond reserve	-	-	-	-
Expense fund	-	-	-	-
Program - Grant proceeds for other state agency	-	59,409	-	-
Program - Bond proceeds	-	-	-	-
Total restricted assets	-	82,910	-	-
Total assets	$ -	582,910	-	-
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$ -	-	-	96,250
Debt service payable	-	23,388	-	-
Notes payable	-	-	-	-
Funds held for others	-	59,409	-	-
Due to other state agencies	-	-	-	-
Due to other funds	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	-	82,797	-	96,250
Fund balances (deficit) - reserved for				
Debt service	-	-	-	-
Special revenue funds	-	500,113	-	(96,250)
Total fund balances	-	500,113	-	(96,250)
Total liabilities and fund balances	$ -	582,910	-	-

See Notes to Financial Statements.

	Emergency Drought Relief	Equipment Loan Fund	Insurance Department Financing Fund	State Capitol Improvement Financing Fund	Water Planning Grant	Workers' Compensation Financing Fund	Total Other Governmental Funds
	494,515	$ -	-	355,009	1,826,643	$ 615,827	3,291,994
	-	211,004	-	83,374	-	12,346	306,724
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	500,000
	494,515	211,004	-	438,383	1,826,643	628,173	4,098,718
	-	34,476	-	-	-	-	57,977
	-	-	-	-	-	172,377	172,377
	-	-	-	-	-	-	-
	-	-	-	-	-	14	59,423
	-	-	-	-	-	361,900	361,900
	-	34,476	-	-	-	534,291	651,677
	494,515	$ 245,480	-	438,383	1,826,643	$ 1,162,464	4,750,395
	34,595	$ -	-	80,263	5,631	-	216,739
	-	-	-	-	-	-	23,388
	-	-	-	-	-	-	-
	-	-	-	-	-	-	59,409
	-	-	-	-	-	-	-
	3,008	-	-	-	-	-	3,008
	-	-	-	-	-	-	-
	37,603	-	-	80,263	5,631	-	302,544
	-	245,480	-	358,120	-	1,162,464	1,766,064
	456,912	-	-	-	1,821,012	-	2,681,787
	456,912	245,480	-	358,120	1,821,012	1,162,464	4,447,851
	494,515	$ 245,480	-	438,383	1,826,643	1,162,464	4,750,395

NEW MEXICO FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Administration Fee Revenue Program (TRIMS Project)	Behavioral Health Clinic	Court Automation Financing Fund	Economic Development
Revenues				
Tax revenue	$ -	500,000	-	-
Grant revenue	-	-	-	-
Interest on loans	-	-	-	-
Interest on investments	214	113	176	-
Other revenue	-	-	-	-
Total revenues	214	500,113	176	-
Expenditures				
Administrative fee	-	-	-	-
Professional services	-	-	(25,843)	81,554
Salaries and fringe benefits	-	-	-	10,735
In-state travel	-	-	-	939
Maintenance and repairs	-	-	-	175
Operating costs	-	-	-	2,847
Grant expense	-	-	-	-
Total current expenditures	-	-	(25,843)	96,250
Debt service				
Principal payments	-	-	-	-
Interest expense	-	-	-	-
Bond issuance costs	-	-	-	-
Total debt service expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	214	500,113	26,019	(96,250)
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Bond premium	-	-	-	-
Transfers (to) from other funds	-	-	(1,179)	-
Transfers to other state agencies	(20,008)	-	(32,037)	-
Total other financing sources (uses)	(20,008)	-	(33,216)	-
Net change in fund balance	(19,794)	500,113	(7,197)	(96,250)
Fund balances - beginning	19,794	-	7,197	-
Restatement	-	-	-	-
Fund balances - beginning, as restated	19,794	-	7,197	-
Fund balances - ending	$ -	500,113	-	(96,250)

See Notes to Financial Statements.

Emergency Drought Relief	Equipment Loan Fund	Insurance Department Financing Fund	State Capitol Improvement Financing Fund	Water Planning Grant	Workers' Compensation Financing Fund	Total Other Governmental Funds
$ -	651,251	71,763	1,079,630	-	1,014,165	3,316,809
255,000	-	-	-	1,000,000	-	1,255,000
-	-	-	-	-	-	-
5,758	22,856	3,647	5,823	22,611	37,323	98,521
-	-	-		-	-	-
260,758	674,107	75,410	1,085,453	1,022,611	1,051,488	4,670,330
-	10,454	-	19,449	-	8,689	38,592
-	-	(9,047)	-	21,315	1,424	69,403
29,528	-	-	-	13,147	-	53,410
592	-	-	-	28	-	1,559
290	-	-	-	221	-	686
8,199	-	-	-	7,048	-	18,094
59,842	-	-	-	160,031	-	219,873
98,451	10,454	(9,047)	19,449	201,790	10,113	401,617
-	584,000	-	430,000	-	165,000	1,179,000
-	129,351	-	544,600	-	183,128	857,079
-	-	-	-	-	-	-
-	713,351	-	974,600	-	348,128	2,036,079
162,307	(49,698)	84,457	91,404	820,821	693,247	2,232,634
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(1,179)
-	-	(758,095)	-	-	(778,335)	(1,588,475)
-	-	(758,095)	-	-	(778,335)	(1,589,654)
162,307	(49,698)	(673,638)	91,404	820,821	(85,088)	642,980
294,605	1,849,655	673,638	266,716	1,000,191	1,247,552	5,359,348
-	(1,554,477)	-	-	-	-	(1,554,477)
294,605	295,178	673,638	266,716	1,000,191	1,247,552	3,804,871
$ 456,912	245,480	-	358,120	1,821,012	1,162,464	4,447,851

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2004

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	HSBC New York (New York)	Total
Bank Accounts				
Operating account - checking	$ 35,079	-	-	35,079
Wire Transfers - checking	202,262	-	-	202,262
Repurchase Agreements	-	3,934,895	3,279,691	7,214,586
Total amount of deposits (bank balances)	237,341	3,934,895	3,279,691	7,451,927
FDIC coverage	(100,000)			(100,000)
Total uninsured public funds	137,341	3,934,895	3,279,691	7,351,927
Collateral requirement @ 102%	140,088	4,013,593	3,345,285	7,498,966
Pledges and securities				
FNMA, matures March 1, 2033 Held at Wells Fargo, San Francisco, California CUSIP 31385W257 Par $202,633	206,307	-	-	206,307
UST, matures August 15, 2004 Held at Wells Fargo, Charlotte, North Carolina CUSIP 912827Q88 Par $4,400,000	-	4,427,500	-	4,427,500
UST, matures November 15, 2004 Held at JP Morgan Chase, New York, New York Par $3,435,000 CUSIP 912833FV7	-	-	3,415,421	3,415,421
Over/(under) secured	$ 66,219	413,907	70,136	550,262

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES
Year Ended June 30, 2004

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency		
Capitalization Grants for Drinking Water State Revolving Funds	66.648	$ 3,149,411

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditure of federal awards is prepared on the accrual basis of accounting.

NOTE B. FUNDS PASSED THROUGH TO SUBRECIPIENTS

Federal expenditures include funds passed through to subrecipients as follows:

CFDA Number	Subrecipient	Amount
66.648	New Mexico Environment Department	$ 2,345,384

NOTE C. LOANS FUNDED

	Original Balance	Balance at June 30, 2004
Revolving Loans		
Loans funded in previous years	$19,382,563	17,771,249
Loans funded in current year		
Northstar DWC & MSW Coop	1,779,798	1,779,798
Total loans funded	$21,162,361	19,551,047

The revolving loans are funded through a mix of 80% federal and 20% state monies. The technical set-aside loans are funded with 100% federal monies.

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

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*

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
December 3, 2004

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

In our opinion, the Authority complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 04-01.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
December 3, 2004

NEW MEXICO FINANCE AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004

Comment	Current Status
03-1 Information Systems Security Policy	Resolved
03-2 Information Systems Disaster Recovery Policy	Resolved

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Finance Authority (Authority).

2. There were no reportable conditions disclosed during the audit of the financial statements as reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.

4. There were no reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

6. There was one audit finding relative to the major federal award program for the Authority.

7. The program tested as a major program is:

Program Name	CFDA Number
Capitalization Grants for Drinking Water State Revolving Funds	66.468

8. The threshold for distinguishing Type A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS–MAJOR FEDERAL AWARD PROGRAMS AUDIT

04-01 Drinking Water State Revolving Fund – Cash Draw and State Match Requirements

CONDITION

As noted in the final Program Evaluation Report completed by the Environmental Protection Agency (EPA) during its site visit of October 28-30, 2003, the Authority was not in compliance with the cash draw proportionality rules and state match requirements.

CRITERIA

The Authority is required to comply with the cash draw proportionality rules and state match requirements of the Drinking Water State Revolving Fund Program, specifically 40 CFR 35.3550(g), 35.5550(f) and 35.3560(g).

CAUSE

The State matched less than the required matching amount. State matching funds were deposited after the federal matching funds were deposited.

EFFECT

The Authority was not in compliance with the cash draw proportionality rules and state match requirements of the Drinking Water State Revolving Fund Program, specifically 40 CFR 35.3550(g), 35.5550(f) and 35.3560(g).

RECOMMENDATION

We recommend that the Authority adheres to the correct draw ratio and continue to monitor the ratio as each draw is completed. We also recommend that State matching funds be deposited concurrently with or before federal funds are deposited.

MANAGEMENT RESPONSE

Subsequent to the issuance of the EPA's Program Evaluation Report, the Authority transferred state matching funds to the Drinking Water Fund to address the proportionality and state match requirements cited in the report.

NEW MEXICO FINANCE AUTHORITY
EXIT CONFERENCE
June 30, 2004

An exit conference was held on December 10, 2004, and attended by the following:

New Mexico Finance Authority Personnel

Bill Sisneros, Executive Director
Keith H. Mellor, Chief Financial Officer
Gary Bland, Board Member

Neff + Ricci LLP Personnel

Scott Eliason, Senior Manager

Neff + Ricci LLP assisted the Authority in preparing these financial statements.

State of New Mexico
OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

March 13, 2006

SAO Ref. No. 385

William C. Sisneros, Executive Director
New Mexico Finance Authority
207 Shelby Street
Santa Fe, NM 87505

SUBJECT: Audit Report—New Mexico Finance Authority—2004-2005 Fiscal Year—Prepared by Meyners & Company, LLC

Your agency audit report was received by the Office of the State Auditor (Office) on January 10, 2006. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

As per your written request, this office is waiving the ten (10) day waiting period and is making the report public record immediately. The audit report will be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer; and

- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10.J.(3)(d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies*.

The independent public accountant's findings and comments are included in the audit report on pages 90 - 98. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.**

DOMINGO P. MARTINEZ, CGFM
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration
Financial Control Division & Budget Division
Office of the State Treasurer
Meyners & Company, LLC

RECEIVED
MAR 15 2006
NMFA

NEW MEXICO FINANCE AUTHORITY

Financial Statements for the Year Ended June 30, 2005, and Independent Auditors' Report

Table of Contents

Year Ended June 30, 2005

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
John A. Carey, Member
Gustavo Cordova, Member
Ron Curry, Member
Ed Garcia, Member
James Jimenez, Member
Rick Homans, Member
James L. McDonough, Member
Joanna Prukop, Member
Craig Reeves, Member

Executive Director
William C. Sisneros

Chief Operations Officer
Jerome Trojan

Chief Financial Officer
Joseph Gosline

MEYNERS +
COMPANY, LLC
Certified Public Accountants/
Consultants to Business

500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2005, and the respective changes in the financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general and special revenue funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements of the Authority taken as a whole. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

December 9, 2005

The New Mexico Finance Authority's (Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

Financial Highlights

- The Authority's governmental net assets decreased by $17,559,070 in fiscal year 2005 from 2004.
- The Authority's program revenues decreased by $2,066,918 in fiscal year 2005 from 2004.
- The total cost of all Authority programs was $97,863,092, an increase of $8,865,382 over 2004.

Authority Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the Authority and the Authority provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2005, the PPRF program made approximately 58 loans totaling approximately $187.6 million, compared to 90 loans totaling approximately $115.2 million in FY2004.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2005, the DWRLF made five loans totaling $12.6 million compared to one loan totaling $1.8 million in FY2004. The FY2005 binding commitments numbered four, approximating $20.5 million, compared to seven totaling approximately $31.5 million in FY2004.

Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2005, the Authority Board has approved 14 loans totaling $7.75 million.

During FY2005, the Authority issued $237.9 billion in bonds to provide reimbursement to the Public Projects Revolving Loan Fund, refund the outstanding metro Court Bonds and provide financing for the UNM Health Sciences Center.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY2005, 30 grants closed for a total of $11,457,000, compared to 40 grants totaling $10,730,017 in FY2004.

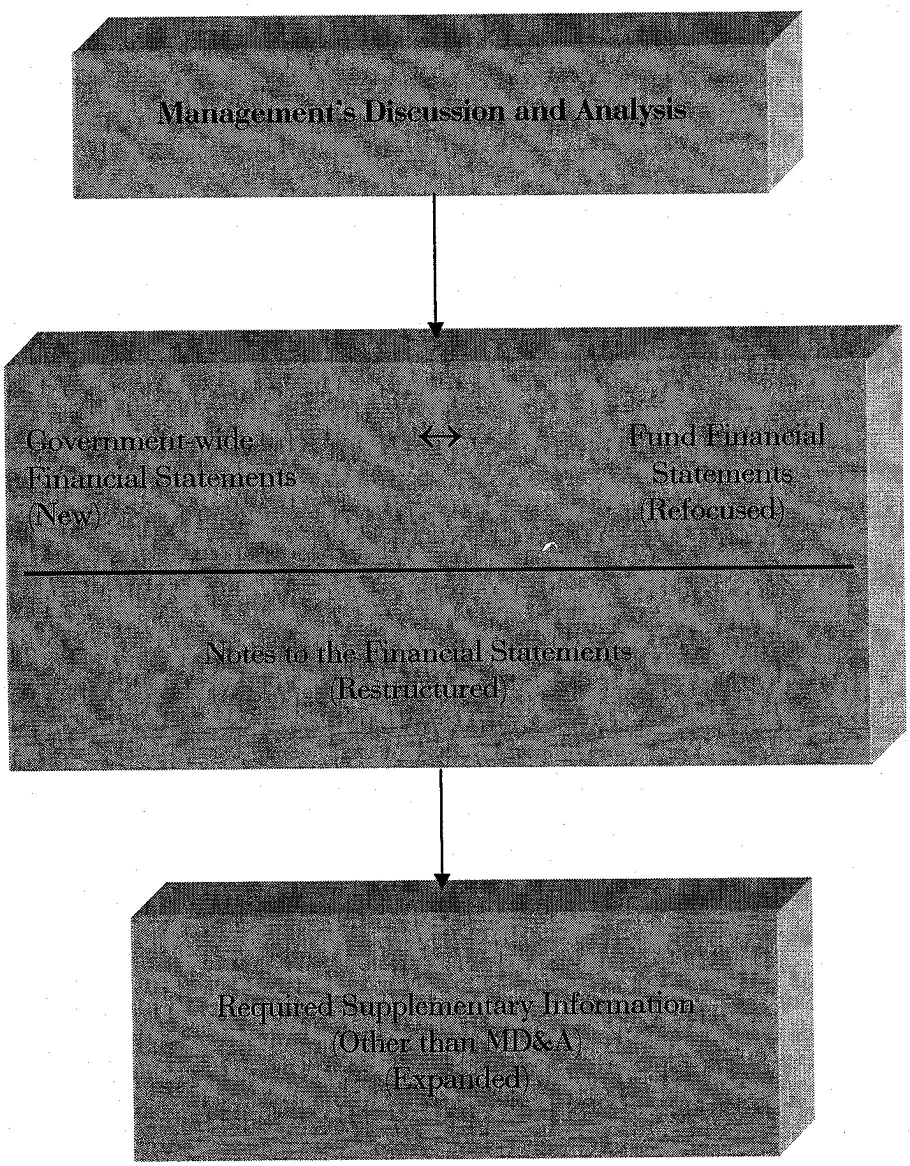
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Using This Annual Report

With the implementation of GASB #34, the presentation of the financial statements is significantly different from the previous general-purpose financial statements. The primary focus in State government's financial statements for the last twenty years or so, (summarized fund type information) has been discarded with implementation of GASB #34. The new focus is on both the Authority (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the Authority is one of several agencies within the State of New Mexico Government, the primary Government focus in this financial report is the Authority and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:

Using This Annual Report - continued



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) 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 consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Authority does not own a material interest in any infrastructure assets and, therefore, is not required to implement this portion of GASB #34.

Government-Wide Financial Statements - continued

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities - All of the Authority's stand-alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the Authority are the Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Behavioral Health Clinic Financing, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capital Improvement Financing and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities - The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the GRIP Administrative Fund and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

- Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the costs of providing services including capital costs be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The fund classified as Proprietary or Enterprise funds are the General Operating Fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund and the Behavioral Health Clinic Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis Of The Authority As A Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2005. FY2005 net assets for Governmental Activities and Business-type Activities were ($60,978,165) and $159,955,266, respectively. Total Authority net assets for fiscal year 2005 are $101,472,809. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2005	2004	2005	2004	2005	2004
Current and other assets	$	75,171,015	122,103,991	248,080,457	165,606,355	323,251,472	287,710,346
Capital and non-current assets		4,047,008	5,465,722	476,415,138	316,295,820	480,462,146	321,761,542
Total assets		79,218,023	127,569,713	724,495,595	481,902,175	803,713,618	609,471,888
Current liabilities		5,267,723	12,212,900	101,828,939	105,575,960	107,096,662	117,788,860
Long-term liabilities		134,928,465	136,745,673	459,805,324	236,833,363	594,733,789	373,579,036
Total liabilities		140,196,188	148,958,573	561,634,263	342,409,323	701,830,451	491,367,896
Net Assets:							
Invested in capital assets		118,808	23,010	140,719	46,023	259,527	69,033
Restricted		(61,096,973)	(21,411,870)	159,955,266	138,667,438	98,858,293	117,255,568
Unrestricted		-	-	2,354,989	779,391	2,354,989	779,391
Total net assets		(60,978,165)	(21,388,860)	162,861,332	139,492,852	101,883,167	118,103,992
Total liabilities and net assets	$	79,218,023	127,569,713	724,495,595	481,902,175	803,713,618	609,471,888

Changes in Net Assets: The Authority's change in net assets for fiscal year 2005 was a decrease of $16,631,183 (Table A-2). A significant portion, twenty-eight percent (28%), of the Authority's revenue comes from Tax Revenue. Four percent (4%) comes from other operating grants and contributions, and seven percent (7%) from interest and investment income. Thirty-five percent (35%) comes from state general fund appropriations, and charges for services and other revenue comprise twenty-six percent (26%) of total revenue.

Table A-2
Changes in the Department's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program	1,143,328	3,561,199	22,779,749	17,171,546	23,923,077	20,732,745
General	28,942,690	19,532,231	23,119,623	19,549,618	52,062,313	39,081,849
Total revenues	30,086,018	23,093,430	45,899,372	36,721,164	75,985,390	59,814,594
Expenses	72,279,123	71,484,073	24,656,082	17,513,637	96,935,205	88,997,710
Net revenues (loss) before transfers and reversions	(42,193,105)	(48,390,643)	21,243,290	19,207,527	(20,949,815)	(29,183,116)
Transfers and reversions	1,588,800	(999,821)	(1,588,800)	999,821	-	-
(Decrease) increase in net assets	(40,604,305)	(49,390,464)	19,654,490	20,207,348	(20,949,815)	(29,183,116)
Net assets, beginning of year	(20,373,860)	28,001,604	143,206,842	119,285,504	122,832,982	147,287,108
Net assets, end of year	$ (60,978,165)	(21,388,860)	162,861,332	139,492,852	101,883,167	118,103,992

Governmental-Type Activities

The Authority's total expenditures for governmental-type activities during the fiscal year were $73,207,010. The highest area of expenditures, $22,061,406, thirty percent (30%), was in the area of Debt Service.

The second highest area of expenditures within the Authority is in the category of Grant Expenses.

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $23,119,623. The majority of business-type expenditures, $16,715,207, seventy-three percent (73%), was in the area of Debt Service. Within the operating cost category, salaries and benefits comprised seven percent (7%) of total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were twenty percent (20%) of total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2005, the Authority had invested a total of $118,808 net of depreciation in business-type activities and $140,718 in fixed assets for government-type activities. During FY2005, capital outlay expenditures totaled $119,209. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

GASB #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The Authority does not own any infrastructure assets.

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2005, the total amount outstanding was $570 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year ended June 30, 2005.

Economic Factors and Next Year's Budgets and Rates

The FY2005 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

- General operations of the Authority, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board, funded from the Water Project Fund:
- Administration of the Water Trust Board, funded from the Emergency Drought Relief Declarations;
- Water and Wastewater Grant Fund (W/WWGF) program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF;
- The Economic Development Fund, funded from administration fees and cigarette tax revenue.

The Authority's primary operating budget for FY2005 was $4,117,898, compared to the FY2004 budget of $2,699,446, a 52.5% increase.

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
ASSETS				
Cash and cash equivalents (Note 2):				
Unrestricted	$	69,519,412	76,532,265	146,051,677
Restricted		3,617,440	109,062,082	112,679,522
Receivables:				
Tax revenue		1,865,951	4,820,218	6,686,169
Interest		18,054	3,707,575	3,725,629
Grant and other		31,350	2,790,877	2,822,227
Due from other state agencies		-	96,986	96,986
Due from other funds (Note 5)		-	2,060,560	2,060,560
Administrative fees receivable		-	291,097	291,097
Loans receivable, net of allowance (Note 3)		1,015,000	458,357,554	459,372,554
Securities (Note 4)		-	12,761,663	12,761,663
Restricted asset - escrow		-	47,544,110	47,544,110
Capital assets, net of depreciation (Note 7)		118,808	140,718	259,526
Deferred costs, net		3,032,008	6,314,710	9,346,718
Other assets		-	15,180	15,180
TOTAL ASSETS	$	79,218,023	724,495,595	803,713,618
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	$	495,732	999,801	1,495,533
Accured payroll, fringe benefits and compensated absences (Note 11)		162,151	177,155	339,306
Accrued interest payable		757,854	1,565,982	2,323,836
Debt service payable		111,140	38,387,390	38,498,530
Notes payable		2,000,000	-	2,000,000
Funds held for others		-	59,799,481	59,799,481
Due to other state agencies (Note 5)		-	579,416	579,416
Due to other funds		1,740,846	319,714	2,060,560
Bonds payable, current		10,564,000	24,813,000	35,377,000
Bonds payable, long-term (Note 8)		124,364,465	434,992,324	559,356,789
TOTAL LIABILITIES		140,196,188	561,634,263	701,830,451
NET ASSETS:				
Invested in capital assets (Note 7)		118,808	140,718	259,526
Restricted for:				
Debt service		22,158,186	-	22,158,186
Program funds		(83,255,159)	159,955,266	76,700,107
Unrestricted		-	2,765,348	2,765,348
TOTAL NET ASSETS		(60,978,165)	162,861,332	101,883,167
TOTAL LIABILITIES AND NET ASSETS	$	79,218,023	724,495,595	803,713,618

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
EXPENSES:				
Capital financing	$	72,279,123	24,656,082	96,935,205
PROGRAM REVENUES:				
Charges for services		-	19,799,701	19,799,701
Operating grants and contributions		1,143,328	2,980,048	4,123,376
TOTAL PROGRAM REVENUES		1,143,328	22,779,749	23,923,077
GENERAL REVENUES:				
Governmental gross receipts and gross receipts tax		-	20,998,900	20,998,900
Investment earnings		2,752,656	2,120,723	4,873,379
State General Fund appropriations		26,180,002	-	26,180,002
Other revenue		10,032	-	10,032
TOTAL GENERAL REVENUES		28,942,690	23,119,623	52,062,313
TRANSFERS		1,588,800	(1,588,800)	-
CHANGE IN NET ASSETS		(40,604,305)	19,654,490	(20,949,815)
NET ASSETS, BEGINNING OF FISCAL YEAR		(21,388,860)	139,992,965	118,604,105
Restatement of net assets (Note 16)		1,015,000	3,213,877	4,228,877
NET ASSETS, BEGINNING OF FISCAL YEAR, AS RESTATED		(20,373,860)	143,206,842	122,832,982
NET ASSETS, END OF FISCAL YEAR	$	(60,978,165)	162,861,332	101,883,167

See Notes to Financial Statements.

AS OF JUNE 30, 2005

		Major Funds							
		Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Unrestricted:									
Cash and cash equivalents	$	3,160,269	3,142,321	15,097,298	53,726	15,979,554	29,385,998	2,700,246	69,519,412
Receivables:									
Tax revenue		846,723	127,913	500,000	-	-	-	391,315	1,865,951
Interest		-	-	-	-	-	-	18,054	18,054
Other		-	31,350	-	-	-	-	-	31,350
Loans receivable		-	-	-	-	-	-	1,015,000	1,015,000
		4,006,992	3,301,584	15,597,298	53,726	15,979,554	29,385,998	4,124,615	72,449,767
Restricted:									
Cash and cash equivalents held for others by trustee:									
Debt service		-	-	-	1,516,816	-	-	30,623	1,547,439
Bond reserve		-	505,738	-	-	-	-	197,963	703,701
Expense fund		-	-	-	-	-	-	-	-
Program - grant proceeds for other state agencies		-	102,078	-	-	-	-	-	102,078
Program - bond proceeds		-	902,322	-	-	-	-	361,900	1,264,222
		-	1,510,138	-	1,516,816	-	-	590,486	3,617,440
TOTAL ASSETS	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207
LIABILITIES:									
Accounts payable and accrued liabilities	$	-	-	321,568	239,529	3,655	5,792	87,339	657,883
Debt service payable		111,140	-	-	-	-	-	-	111,140
Notes payable		-	2,000,000	-	-	-	-	-	2,000,000
Funds held for others		-	-	-	-	-	-	-	-
Due to other state agencies		-	-	-	-	-	-	-	-
Due to other funds		1,275,482	-	-	-	19,850	53,573	391,941	1,740,846
TOTAL LIABILITIES		1,386,622	2,000,000	321,568	239,529	23,505	59,365	479,280	4,509,869
FUND BALANCES:									
Reserve for debt service		2,620,370	-	15,275,730	1,331,013	-	-	2,931,073	22,158,186
Special revenue funds		-	2,811,722	-	-	15,956,049	29,326,633	1,304,748	49,399,152
TOTAL FUND BALANCES		2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338
TOTAL LIABILITIES AND FUND BALANCES	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	71,557,338
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
The cost of capital assets is:		147,875
Accumulated depreciation is:		(29,067)
Total capital assets		118,808
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds		3,032,008
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, net of premium of $2,163,465		(134,928,465)
Accrued interest payable		(757,854)
Total long-term and other liabilities		(135,686,319)
Net assets of governmental activities (Statement of Net Assets)	$	(60,978,165)

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Major Funds							
	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	$ -	-	-	-	430,272	-	713,056	1,143,328
Interest on loans	-	-	-	-	-	-	-	-
Interest on investments	71,427	118,922	333,719	1,049,967	350,989	738,338	89,294	2,752,656
Other revenue	-	-	-	-	-	-	10,032	10,032
TOTAL REVENUES	71,427	118,922	333,719	1,049,967	781,261	738,338	812,382	3,906,016
EXPENDITURES:								
Current:								
Administrative fee	138,469	-	47,153	137,759	-	-	18,350	341,731
Professional services	6,915	12,315	1,428	19,774	72,056	170,269	237,035	519,792
Salaries and fringe benefits	-	-	-	-	92,755	70,303	64,914	227,972
In-state travel	-	-	-	-	6,865	3,765	2,073	12,703
Out-of-state travel	-	-	-	-	804	1,195	4,277	6,276
Maintenance and repairs	-	-	-	-	1,539	1,419	1,990	4,948
Operating costs	-	-	-	-	24,653	20,928	28,114	73,695
Grant expenses	-	-	-	-	1,538,946	10,999,193	561,732	13,099,871
Capital outlay	-	-	-	-	26,351	25,840	67,018	119,209
Debt service - principal	8,360,000	600,000	1,265,000	4,760,000	-	-	-	14,985,000
Debt service - interest	2,774,066	62,810	1,542,586	1,438,648	-	-	1,258,296	7,076,406
Bond issuance costs	-	-	-	458,461	-	-	772,615	1,231,076
TOTAL EXPENDITURES	11,279,450	675,125	2,856,167	6,814,642	1,763,969	11,292,912	3,016,414	37,698,679
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,208,023)	(556,203)	(2,522,448)	(5,764,675)	(982,708)	(10,554,574)	(2,204,032)	(33,792,663)
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	10,000,000	-	-	-	10,000,000
State General Fund appropriations	6,495,663	1,242,405	6,000,000	10,271,553	-	-	2,170,381	26,180,002
Transfers (to) from other funds	2,317,181	(666,461)	-	-	(57,870)	(49,355)	45,305	1,588,800
Transfer to other state agencies	(1,728,888)	(94,150)	(4,666,706)	(43,734,149)	-	-	(738,571)	(50,962,464)
NET OTHER FINANCING SOURCES (USES)	7,083,956	481,794	1,333,294	(23,462,596)	(57,870)	(49,355)	1,477,115	(13,193,662)
NET CHANGE IN FUND BALANCES	(4,124,067)	(74,409)	(1,189,154)	(29,227,271)	(1,040,578)	(10,603,929)	(726,917)	(46,986,325)
FUND BALANCES, June 30, 2004	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	3,947,738	117,528,663
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	1,015,000	1,015,000
FUND BALANCES, June 30, 2004, as restated	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,962,738	118,543,663
FUND BALANCES, June 30, 2005	$ 2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$ (46,986,325)
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 decrease in the liabilities for the fiscal year was:	
Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Bond obligations were increased during the current fiscal year by:	(10,000,000)
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities these payments are reported as a reduction of the liability. In the current period, these amounts were:	
Principal payments	14,985,000
Other reductions (prepayments, etc.)	412,999
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was:	95,831

See Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2005

Change from prior year in amortization of bond issuance costs:		
Deferred issuance costs FY04 (p. 15 PY)	$ 4,942,712	
Deferred issuance costs FY05 (p. 17 CY)	3,032,008	
		$ (1,910,704)
Change from prior year in amorization of bond premium/discount		
Amortization of bond premium/discount FY04 (p. 58 PY)	4,351,673	
Amortization of bond premium/discount FY05 (p. 61 CY)	2,163,464	
		2,188,209
Reclassification of fund type: In the prior year, Behavioral Health Clinic Fund was a governmental fund. In the current year, it is an enterprise fund. The $500,113 represents the prior year fund balance.		(500,113)
Prior period restatement of fund balance		1,015,000
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 were:		
Capital outlay		119,209
Depreciation expense		(19,869)
Adjustments/Deletions		(3,542)
Excess of capital outlay over depreciation expense		95,798
Change in net assets of governmental activities (Statement of Activities)		$ (40,604,305)

AS OF JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
ASSETS:								
Current:								
Cash and cash equivalents	$ 106,734	68,618,877	6,279,814	1,467,353	-	59,487	-	76,532,265
Receivables:								
Tax revenue	-	4,793,654	3,460	-	23,104	-	-	4,820,218
Interest	-	3,580,267	127,308	-	-	-	-	3,707,575
Grant and other	139,005	130,412	2,521,460	-	-	-	-	2,790,877
Due from other state agencies	-	24,069	-	72,917	-	-	-	96,986
Due from other funds	785,078	1,275,482	-	-	-	-	-	2,060,560
Administrative fees receivable	-	276,038	15,059	-	-	-	-	291,097
Total current assets	1,030,817	78,698,799	8,947,101	1,540,270	23,104	59,487	-	90,299,578
Loans receivable, net of allowance	-	435,730,919	16,812,533	-	5,353,237	460,865	-	458,357,554
Securities	-	12,761,663	-	-	-	-	-	12,761,663
Restricted assets - cash and cash equivalents	-	97,435,630	9,350,941	-	2,266,477	9,034	-	109,062,082
Escrow	-	47,544,110	-	-	-	-	-	47,544,110
Capital assets:								
Depreciable property and equipment, net	43,655	36,132	27,339	33,592	-	-	-	140,718
Deferred issuance costs, net	-	6,314,710	-	-	-	-	-	6,314,710
Other assets	15,180	-	-	-	-	-	-	15,180
TOTAL ASSETS	$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595
LIABILITIES:								
Accounts payable and other liabilities	$ 38,744	799,574	156,614	342	-	-	4,527	999,801
Accrued payroll, fringe benefits and compensated absences	158,331	12,246	3,410	3,168	-	-	-	177,155
Accrued interest payable	-	1,565,982	-	-	-	-	-	1,565,982
Debt service payable	-	36,970,234	1,417,156	-	-	-	-	38,387,390
Funds held for others	-	58,297,200	1,433,504	-	60,854	7,923	-	59,799,481
Due to other state agencies	-	-	579,416	-	-	-	-	579,416
Due to other funds	-	238,986	46,284	30,692	-	-	3,752	319,714
Bonds payable, current	-	-	-	-	-	-	-	-
Bonds payable, long-term	-	459,805,324	-	-	-	-	-	459,805,324
TOTAL LIABILITIES	197,075	557,689,546	3,636,384	34,202	60,854	7,923	8,279	561,634,263
NET ASSETS:								
Invested in capital assets	43,656	36,132	27,339	33,592	-	-	-	140,719
Restricted for:								
Debt service	-	-	-	-	-	-	-	-
Program funds	-	120,796,285	31,474,191	-	7,581,964	521,463	(8,279)	160,365,624
Unrestricted	848,921	-	-	1,506,068	-	-	-	2,354,989
TOTAL NET ASSETS	892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332
TOTAL LIABILITIES AND NET ASSETS	$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
INTEREST EARNINGS:								
Interest on loans	$ -	16,047,183	388,795	-	-	18,656	-	16,454,634
Interest on investments	37,129	1,669,370	243,409	8,623	161,193	999	-	2,120,723
TOTAL INTEREST EARNINGS	37,129	17,716,553	632,204	8,623	161,193	19,655	-	18,575,357
INTEREST EXPENSE:								
Debt service - interest expense	-	16,715,207	-	-	-	-	-	16,715,207
NET INTEREST EARNINGS	37,129	1,001,346	632,204	8,623	161,193	19,655	-	1,860,150
NON-INTEREST EARNINGS:								
Tax revenue	-	20,998,900	-	-	-	-	-	20,998,900
Federal grant revenue	-	-	2,980,048	-	-	-	-	2,980,048
Revolving loans grant revenue	-	-	-	-	-	-	-	-
Administrative fees	1,344,184	275,978	87,008	1,636,202	-	1,695	-	3,345,067
TOTAL NON-INTEREST EARNINGS	1,344,184	21,274,878	3,067,056	1,636,202	-	1,695	-	27,324,015
NON-INTEREST EXPENSE:								
Grant expense	-	1,468,698	-	-	-	-	-	1,468,698
Bond issuance costs	-	288,374	-	-	-	-	-	288,374
Administrative fee	-	-	-	-	-	-	-	-
Professional services	192,978	-	181,725	95,063	1,913	-	8,238	479,917
Loan interest expense	-	187	-	-	-	-	-	187
Salaries and fringe benefits	963,338	482,469	134,170	144,552	-	-	-	1,724,529
Technical set-aside expense	-	-	1,588	-	-	-	-	1,588
In-state travel	11,490	14,712	3,049	4,839	-	-	(13)	34,077
Out of state travel	15,946	10,449	6,898	7,166	-	-	-	40,459
Maintenance and repairs	9,952	5,040	4,323	1,887	-	-	-	21,202
Supplies	30,921	50	5,608	3,065	-	-	-	39,644
Operating costs	151,646	983,643	65,744	25,399	-	-	54	1,226,486
Depreciation	19,869	13,106	7,253	5,526	-	-	-	45,754
TOTAL NON-INTEREST EXPENSE	1,396,140	3,266,728	410,358	287,497	1,913	-	8,279	5,370,915
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS	(14,827)	19,009,496	3,288,902	1,357,328	159,280	21,350	(8,279)	23,813,250
TRANSFERS:								
Transfers in (out)	742,761	(9,519,577)	7,186,103	-	1,913	-	-	(1,588,800)
Transfer from (to) other state agencies	-	-	(2,569,960)	-	-	-	-	(2,569,960)
TOTAL TRANSFERS	742,761	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,760)
CHANGE IN NET ASSETS	727,934	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,490
TOTAL NET ASSETS, June 30, 2004	164,643	108,128,621	23,596,485	182,332	7,420,771	500,113	-	139,992,965
Restatement of net assets	-	3,213,877	-	-	-	-	-	3,213,877
TOTAL NET ASSETS, June 30, 2004, as restated	164,643	111,342,498	23,596,485	182,332	7,420,771	500,113	-	143,206,842
TOTAL NET ASSETS, June 30, 2005	$ 892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Cash paid for employee services	$ (928,263)	(482,469)	(140,944)	(267,846)	-	-	-	(1,819,522)
Cash paid to vendors for services	(606,117)	(2,130,774)	(30,516)	(106,385)	(1,913)	-	-	(2,875,705)
Bond issuance costs	-	(288,374)	-	-	-	-	-	(288,374)
Interest expense paid	-	(15,964,478)	-	-	-	-	-	(15,964,478)
Grants awarded	-	(482,469)	2,554,902	-	-	-	-	2,072,433
Tax revenue	-	18,156,955	-	-	-	-	-	18,156,955
Cash received from federal government for revolving loans	-	-	-	-	-	-	-	-
Interest income received	37,129	17,063,202	632,204	8,623	138,089	19,655	-	17,898,902
Administrative fees received	671,211	-	47,622	1,872,079	-	1,695	-	2,592,607
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:								
Operating transfers, net	742,818	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,703)
Cash paid to subrecipients for services	-	3,120,704	-	-	-	-	-	3,120,704
Cash provided (used) by funds held for others	-	-	(5,847,856)	-	(399,896)	(51,486)	-	(6,299,238)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	742,818	(6,398,873)	(1,231,713)	-	(397,983)	(51,486)	-	(7,337,237)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Securities	-	(1,022,154)	-	-	-	-	-	(1,022,154)
Escrow	-	(47,544,110)	-	-	-	-	-	(47,544,110)
Loans funded	-	(181,046,966)	-	-	-	-	-	(181,046,966)
Loan payments received	-	32,478,397	2,738,514	-	310,974	39,135	-	35,567,020
Bonds issued	-	227,945,000	-	-	-	-	-	227,945,000
Payment of bonds	-	(20,862,967)	(23,095)	-	(13,487)	(23,388)	-	(20,922,937)
Debt service	-	16,744,909	-	-	-	-	-	16,744,909
Fixed asset purchases	(41,160)	(34,437)	(26,663)	(39,118)	-	-	-	(141,378)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(41,160)	26,657,672	2,688,756	(39,118)	297,487	15,747	-	29,579,384
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(124,382)	36,130,392	4,520,311	1,467,353	35,680	(14,389)	-	42,014,965
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2004	231,116	129,924,115	11,110,444	-	2,230,797	82,910	-	143,579,382
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2005	$ 106,734	166,054,507	15,630,755	1,467,353	2,266,477	68,521	-	185,594,347
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:	727,935	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,491
Adjustments to operating income:								
Depreciation and amortization	19,869	13,106	7,253	5,526	-	-	-	45,754
Bad debt expense	-	-	-	-	-	-	-	-
Net transfers	(742,818)	9,519,577	(4,616,143)	-	(1,913)	-	-	4,158,703
(Increase) decrease in prepaids and receivables	(680,543)	(4,513,515)	(464,532)	235,877	(23,104)	-	-	(5,445,817)
Increase (decrease) in payables and other accrued liabilities	(150,483)	1,362,506	231,645	(92,260)	-	-	8,279	1,359,687
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818

See Notes to Financial Statements.

AS OF JUNE 30, 2005

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	619,764,448
Expense funds		1,539,634
Bond reserve funds		41,644,551
TOTAL ASSETS	$	662,948,633
LIABILITIES:		
Accounts payable	$	1,319,225
Debt service payable		41,864,960
Funds held for the New Mexico Department of Transportation		619,764,448
TOTAL LIABILITIES	$	662,948,633

See Notes to Financial Statements.

NATURE OF ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act) is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer; the Secretary of the Department of Finance and Administration; the Secretary of Economic Development; the Secretary of Energy, Minerals and Natural Resources; the Secretary of the Environment Department; the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, appoints to the Authority Board, the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

Bonds and other obligations issued by the Authority under the provisions of the Act are not a debt or liability of the state or any subdivision thereof.

The Authority is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NATURE OF ORGANIZATION - continued

The financial reporting entity as defined by GASB No. 14 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, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basic Financial Statements*

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

♦ *Government-wide and Fund Financial Statements*

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

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Government-wide and Fund Financial Statements - continued*

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

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

♦ *Basis of Presentation - Fund Accounting*

The accounts of the Authority are organized on the basis of funds and account groups, 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.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

The following fund types and account groups are used by the Authority:

Governmental Fund Types - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

Special Revenue Fund - State Building Program-Cigarette Tax. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation, provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax, with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act, in the amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds, or any payments for refunding or redemption premiums on the bonds, and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

Special Revenue Fund - State Building Program-Cigarette Tax - continued. The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Special Revenue Fund - Water and Wastewater Project Grant Fund. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

Special Revenue Fund - Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 Legislative Session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Project Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Special Revenue Fund - Water and Wastewater Planning Grant Fund. The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant must not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

Special Revenue Fund - Emergency Drought Water Program. Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests, the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - Workers' Compensation Financing Fund. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments, for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by the Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the Americans with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint power agreement to accomplish this purpose. A total of $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of calendar quarter, after all current obligations and any sinking fund requirements are met, shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - State Capitol Improvement Financing Fund. The Laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a state building located adjacent to the State Capitol in Santa Fe known as the New Mexico State Library, and for relocation-associated renovations in the State Capitol. A total of $510,000 of revenue bonds were issued on May 17, 1999 and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority, and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of 1) purchasing the National Education Association Building on South Capitol Street in Santa Fe, New Mexico, 2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico, and 3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition, to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may include the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

Debt Service Fund - UNM Health Sciences. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Proprietary Fund Types - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business-type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The enterprise funds are as follows:

Enterprise Fund - Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - Primary Care Capital Fund - continued. for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (see Note 12).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Measurement Focus and Basis of Accounting*

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2005, was $23,791,613.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus and Basis of Accounting - continued*
Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

♦ *Cash and Cash Equivalents*
Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer is invested by the New Mexico State Treasurer in the "overnight" repurchase program.

For pooled funds on deposit with the New Mexico State Treasurer, interest is credited to the various programs based on the program's average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State, or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

♦ *Securities*
The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds that are recorded at cost, which approximates market value.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Loans***

Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no material loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on non-accrual status.

♦ ***Allowance for Loan Losses***

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. The Authority has not experienced any losses on its loan portfolio.

♦ ***Restricted Assets***

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

♦ ***Budgets and Budgetary Accounting***

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Capital Assets*

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $1,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

♦ *Income Taxes*

The Authority is a tax-exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

♦ *Compensated Absences*

Full-time employees are entitled to fifteen days vacation leave with ten years or less employment with the Authority. Employees with more than ten years receive twenty days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid vacation leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

♦ *Cash Flows*

For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Bond Discounts, Premiums and Issuance Costs***

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

♦ ***Fund Equity***

Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements, which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

♦ ***Net Assets***

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

Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets that have third-party (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

♦ ***Use of Estimates***

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Interfund and Interagency Transactions***

Interfund and interagency transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE*

Funds held for others and short-term investments are held at the trustees in the names of the applicable government entity and the Authority. The repurchase agreements are overnight only. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	163,405,760	163,405,760
Money market accounts invested in American Performance U.S. Treasury Fund		88,049,119	88,049,002
Repurchase agreements		7,169,586	7,169,586
Wells Fargo operating accounts		106,734	84,745
	$	258,731,199	258,709,093
Agency Fund:			
Money market accounts invested in FNMA	$	41,644,552	41,644,552
Money market accounts invested in American Performance U.S. Treasury Fund		1,539,633	1,539,633
Money market accounts invested in Citigroup U.S. Treasury Fund		593,358,611	593,358,611
State Treasurer Repurchase Agreement		26,405,837	26,405,837
	$	662,948,633	662,948,633

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

The New Mexico State Treasurer's Office is responsible for ensuring that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States, are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The sources of funds are financing program bond proceeds, pledged revenues 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.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its collateral securities that are in the possession of an outside party. The Authority's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in the Authority's name.

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES*

Loan receivable balances consist of the following at June 30, 2005:

Enterprise funds:	
Public Project Revolving Loan Fund	$ 436,127,272
Allowance for loan losses	(396,353)
	435,730,919
Primary Care Capital Fund	5,353,237
Drinking Water State Revolving Loan Fund	16,812,533
Behavioral Health Fund	460,865
	$ 458,357,554

♦ ***Public Project Revolving Loan Fund***

The Public Project Revolving Loan Fund loans receivable balance at June 30, 2005 is $436,127,272 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	46,233,909	14,437,791	60,661,700
July 1, 2006 to maturity		389,893,363	123,486,152	513,379,515
	$	436,127,272	137,913,943	574,041,215

♦ ***Primary Care Capital Fund***

Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	407,477	153,176	560,653
July 1, 2006 to maturity		4,945,760	899,217	5,844,977
	$	5,353,237	1,052,393	6,405,630

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ *Primary Care Capital Fund - continued*

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

♦ *Drinking Water State Revolving Loan Fund*

Terms for the Drinking Water State Revolving loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	991,630	354,167	1,345,797
July 1, 2006 to maturity		15,820,903	2,614,154	18,435,057
	$	16,812,533	2,968,321	19,780,854

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

♦ *Behavioral Health Capital Fund*

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	29,495	12,674	42,169
July 1, 2006 to maturity		431,370	81,291	512,661
	$	460,865	93,965	554,830

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

4. *SECURITIES*

At June 30, 2005, securities for the Public Project Revolving Fund (PPRF) consisted of $12,018,362 of Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B and 2003B); $11,281 of Jemez Springs Bonds; and $732,020 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resources Bonds have interest rates ranging from 3% to 5.6%, with final maturity on May 1, 2018. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45%, with a final maturity on May 1, 2008. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19%, with final maturity on May 1, 2008. The securities are carried at cost, which approximates market value.

The following is a summary of future principal and interest to be collected based on contractual maturity of the securities after year-end:

		Principal	Interest	Total	Weighted Average Maturity
July 1, 2005 to June 30, 2006	$	1,056,286	593,939	1,650,225	2.74
July 1, 2006 to maturity		11,705,377	3,434,023	15,139,400	379.60
	$	12,761,663	4,027,962	16,789,625	382.34

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in The Authority's name. The Authority's investments in securities listed above are not collateralized.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS*

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2005, consist of the following:

		Due From Other Funds	Due To Other Funds
Governmental Funds:			
Water and Wastewater Grant	$	53,573	-
Water Project Fund		19,850	-
Emergency Drought Relief		2,867	-
Water Planning Grant		13,981	-
Economic Development		375,093	-
Metro Court Financing Fund		1,275,482	-
Total Governmental Funds		1,740,846	-
Enterprise Funds:			
Drinking Water Fund		46,284	-
Public Project Revolving Fund		238,986	-
GRIP Fund		30,692	-
Child Care Facility Revolving Fund		3,752	-
Public Project Revolving Fund		-	1,275,482
Operating Fund		-	785,078
Total Enterprise Funds		319,714	2,060,560
Total All Funds	$	2,060,560	2,060,560

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Transfers between funds for the year ended June 30, 2005 are as follows:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds:			
UNM Health Sciences	$ 140,761	140,761	-
Metro Court Financing Fund	8,511,003	8,457,697	53,306
Metro Court DS Fund	3,424,358	1,160,483	2,263,875
State Building Program Cigarette Tax	3,071,505	3,737,966	(666,461)
Water and Waste Water Project Grant Fund	800	50,155	(49,355)
Water Project Fund	-	57,870	(57,870)
Emergency Drought Relief	57,870	-	57,870
Economic Development	488	-	488
Water Planning Grant	-	13,053	(13,053)
Total Governmental Funds	15,206,785	13,617,985	1,588,800
Enterprise Funds:			
Operating Fund	4,025,892	3,283,131	742,761
Drinking Water Revolving Loan Fund	7,313,470	127,367	7,186,103
Primary Care Revolving Fund	1,913	-	1,913
Public Project Revolving Fund	646,448,958	655,968,535	(9,519,577)
Total Enterprise Funds	657,790,233	659,379,033	(1,588,800)
Total All Funds	$ 672,997,018	672,997,018	-

The following Enterprise Fund owed the following amounts to other state agencies at June 30, 2005:

The Drinking Water Revolving Loan Fund owed $579,416 to the Environment Department for technical set-asides.

6. *TRANSFERS TO OTHER STATE AGENCIES*

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2005:

The UNM Health Sciences transferred $43,734,149 in program fund requests to the entity.

The Workers' Compensation Financing Fund transferred $738,571 to rebate excess debt service funds.

The Metro Court Financing Fund transferred $1,728,888 to rebate excess debt service funds.

The State Building Purchase Fund transferred $4,666,706 in program fund requests to various entities.

The State Building Program Cigarette Tax transferred $94,150 for debt service payments.

The following enterprise fund made the following transfer to other state agencies during the year ended June 30, 2005:

The Drinking Water Revolving Loan Fund transferred $2,569,960 to the New Mexico Environment Department for technical assistance.

7. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	271,609	138,444	(150,614)	259,439
Accumulated depreciation		(225,586)	(37,978)	142,328	(121,236)
Total		46,023	100,466	(8,286)	138,203

7. *CAPITAL ASSETS - continued*

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Leasehold improvements	$	29,113	2,934	(29,113)	2,934
Accumulated depreciation		(29,113)	(419)	29,113	(419)
Total		-	2,515	-	2,515
Net total	$	46,023	102,981	8,286	140,718

Depreciation expense was $19,868 in the Operating Fund, $13,106 in the Public Project Revolving Fund, $7,253 in the Drinking Water Revolving Loan Fund, and $5,526 in the GRIP Administrative Fund for the year ended June 30, 2005.

Governmental Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	34,038	116,462	(5,371)	145,129
Accumulated depreciation		(11,028)	(19,477)	1,829	(28,676)
Total		23,010	96,985	(3,542)	116,453
Leasehold improvements		9,725	2,747	(9,725)	2,747
Accumulated depreciation		(9,725)	(392)	9,725	(392)
Total		-	2,355	-	2,355
Net total	$	23,010	99,340	3,542	118,808

7. *CAPITAL ASSETS - continued*

Depreciation expense was $7,973 in the Water and Wastewater Project Grant Fund, $7,930 in the Water Project Fund, $2,445 in the Emergency Drought Water Program Fund, $3,076 in the Water and Wastewater Planning Grant Fund and $1,624 in the Economic Development Fund for the year ended June 30, 2005.

8. *BONDS PAYABLE*

Bonds outstanding as of June 30, 2005, for the Authority's enterprise funds consist of the following:

Public Project Revolving Funds (PPRF)

PPRF Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A, in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investments securities.

PPRF Series 1999A, 1999B, 1999C and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax exempt) and Series 1999 and 1999D (taxable), in the aggregate principal amounts of $13,135,000, $3,025,000, $2,265,000 and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

PPRF Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A Bonds, in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2000B and C. On September 1, 2000, the Authority issued $7,670,000 of Public Project Revolving Fund, Series 2000B and $28,850,000 Series 2000C Bonds. The Series 2000B and C bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various Governmental Units and to reimburse the Authority for and to finance the costs of issuance of the Series 2000B and C Bonds.

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

8. *BONDS PAYABLE - continued*

Bonds outstanding as of June 30, 2005, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds, Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds is for designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds.

8. *BONDS PAYABLE - continued*

Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 19965B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

8. *BONDS PAYABLE - continued*

State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issued revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds, Series 2002A, were issued on December 15, 2001, for purpose of financing the costs of acquiring, constructing, equipping and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

8. *BONDS PAYABLE - continued*

Bonds payable and related premium/discount balances consist of the following at June 30, 2005

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1997A	$	5,870,000	4.25 - 5.00	6/1/2017
PPRF 1999A, B, C and D		14,370,000	3.30 - 6.30	6/1/2018
PPRF 2000A		2,215,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		12,985,000	4.35 - 5.60	6/1/2030
PPRF 2002A		33,080,000	2.00 - 5.00	6/1/2026
PPRF 2003A		34,590,000	2.00 - 4.75	6/1/2032
PPRF 2003B		25,570,000	2.00 - 5.00	6/1/2021
PPRF 2004A		39,975,000	1.125 - 5.00	6/1/2031
PPRF 2004B		47,575,000	3.00 - 5.125	6/1/2033
PPRF 2004C		165,280,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D		56,510,000	3.05 - 5.00	Various
		438,020,000		
Bond premium and discount, net on enterprise funds		21,785,324		
Total	$	459,805,324		

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service funds:				
UNM Health Sciences	$	34,275,000	2.00 - 5.00	6/30/2019
UNM Health Sciences 2004B		10,000,000	2.10 - 5.50	6/30/2019
Workers' Compensation Financing Fund		3,135,000	5.00 - 5.60	3/1/2017
Metro Court		46,325,000	5.50 - 5.80	2025
State Capitol Improvement Financing Fund		6,990,000	7.00	3/15/2015
State Building Purchase Fund		30,170,000	4.00 - 5.00	6/1/2021
COP-Equipment Loan Fund Series 94A		-	4.55 - 6.45	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B		631,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A		110,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B		529,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond		600,000	3.95 - 5.25	6/1/2006
		132,765,000		

8. BONDS PAYABLE - continued

		Amount
Bond premium and discount, net on Debt Service Funds		2,163,465
Total	$	134,928,465

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2006	$	35,377,000	26,625,398	62,002,398
2007		33,027,000	25,382,569	58,409,569
2008		30,926,000	24,197,200	55,123,200
2009		32,699,000	22,935,717	55,634,717
2010		33,746,000	21,563,456	55,309,456
2011 - 2015		188,591,365	65,133,965	253,725,330
2016 - 2020		136,345,635	44,252,171	180,597,806
2021 - 2025		73,013,000	13,843,012	86,856,012
2026 - 2030		6,815,000	1,173,570	7,988,570
2031 - 2033		245,000	83,369	1,113,369
Total	$	570,785,000	245,190,427	815,975,427

The bonds payable activity for the year is as follows:

		Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
Enterprise Funds	$	251,961,838	227,945,000	41,886,838	438,020,000
Debt Service Funds		139,178,000	10,000,000	16,413,000	132,765,000
Total	$	391,139,838	237,945,000	58,299,838	570,785,000

The amount of bonds payable due within one year is $35,377,000.

8. *BONDS PAYABLE - continued*

The following bonds were issued by the Authority in an agency capacity and are not included in the Authority's financial statements (see Note 12):

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation, Series 2004A, Revenue Bonds. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation, Series 2004B, Refunding Revenue Bonds. The Series 2004B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation, Series 2004C, Refunding Revenue Bonds. The Series 2004C Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

9. *OPERATING LEASE COMMITMENT*

The Authority is committed under various lease agreements for office space and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2005 amounted to approximately $207,800.

9. *OPERATING LEASE COMMITMENT - continued*

Future minimum lease payments for these leases are as follows:

Years ending June 30:		
2006	$	275,748
2007		275,748
2008		273,832
2009		270,000
2010		202,500
2011 and thereafter		-
	$	1,292,828

10. *RETIREMENT PLAN*

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $204,975, $153,937 and $99,057 for the years ended June 30, 2005, 2004 and 2003, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2005, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

10. *RETIREMENT PLAN - continued*

Statement of Fiduciary Net Assets

Assets:		
Cash	$	20,331
Self-directed accounts (cash and investments)		835,716
Participant loan receivable		33,914
Total assets	$	889,961
Net assets:		
Pension plan participants' benefits	$	889,961

Statement of Changes in Net Assets

Additions:		
Investment earnings	$	57,412
Employer contributions		204,975
Employee contributions		61,693
Total additions		324,080
Deductions:		
Distributions to participants		60,442
Investment expenses		7,168
Total deductions		67,610
Change in net assets		256,459
Net assets - beginning		633,492
Net assets - ending	$	889,961

10. RETIREMENT PLAN - continued

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code to its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2005 were $11,007.

11. COMPENSATED ABSENCES

During the year ended June 30, 2005, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
$	152,658	75,676	96,056	132,278

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

12. AGENCY TRANSACTIONS

Bond Issues

The Authority, on behalf of the New Mexico Department of Transportation (NMDOT), issued $700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A in May 2004. The gross proceeds to the Authority were $738,787,815, including $43,556,815 of an original issue premium. The cost of issuance including underwriter fees was $6,368,367. The Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and the NMDOT has determined to be necessary or desirable.

12. *AGENCY TRANSACTIONS - continued*

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 3.8% to 5.25% per annum is payable semi-annually on June 15 and December 15 through the year 2024.

The Authority, on behalf of the NMDOT, issued $237,950,000 and $200,000,000 (Authority) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C in May 2004. The gross proceeds to the Authority for both issuances were $451,069,205, including $16,347,187 of an original issue premium. The cost of issuance including underwriter fees was $4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The $237,950,000 Series 2004B Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the Authority and the Commission.

The NMDOT is responsible for the Authority issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 2% to 5% per annum is payable semi-annually on June 15 and December 15 through the year 2014.

The Series 2004C Bonds are special, limited obligations of the NMDOT payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C Bonds or which may hereafter be issued through the Authority. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

The Authority is responsible for its issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15 with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is fixed at 3.393% based on a swap agreement in place at June 30, 2004.

12. *AGENCY TRANSACTIONS - continued*

For the year ended June 30, 2005, the Authority recorded $341,731 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2005, the Authority had $662,948,633 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

Refunding

The Authority, on behalf of the NMDOT, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. $381,835,000 of the bonds outstanding was considered defeased as of June 30, 2004.

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

Objective of the swaps. In April of 2004, the New Mexico Finance Authority (the Authority) entered into two forward starting swaps on behalf of NMDOT with two counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of Governor Richardson's Investment Partnership (GRIP) which is a $1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between $175 million and $200 million in cash, which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P. Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072%, based on an amortizing notional schedule

12. *AGENCY TRANSACTIONS - continued*

State Transportation Revenue Bonds, Series 2006 - continued

with a combined $220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair value. As of June 30, 2005, the swaps had a negative fair value of $33,840,224 without the option. The options had a negative value of $11,128,234 in isolation of the swaps; thus the swaps including the options had a total negative value of $44,968,458. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial case reserves which will mitigate this risk by generating variable rate income.

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3

Objective of the swaps. In April of 2004, the Authority entered into three swaps on behalf of NMDOT with three counterparties to synthetically refund outstanding Bonds which provided the Authority with present value savings of $11,524,206, or 3.02% of the Refunded Bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate

12. *AGENCY TRANSACTIONS - continued*

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

bonds at the time of issuance. In addition, through this structure the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swaps was to effectively change the Authority's interest rate on the bonds to a fixed rate.

Terms. The swaps were executed with Goldman Sachs Mitsui Marine Derivative (Goldman), Lehman Brothers Derivative Products, Inc. (Lehman) and Royal Bank of Canada (RBC) at respective initial amortizing notional amount of $50,000,000, $50,000,000 and $100,000,000. The counterparties were, at the trade date, rated AA+/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's, respectively. All three swaps commenced on May 20, 2004, and will mature on June 15, 2024. Under the swaps, the Authority pays a fixed rate of 3.934% and receives a variable rate computed as the BMA index until June 15, 2006, on which date the variable interest rate received will switch to 68% of the one month London Interbank Offered Rate (LIBOR) until maturity. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair value. As of June 30, 2005, the Lehman swap and Goldman swap each had a negative fair value of $5,157,441, while the RBC swap had a negative value of $10,314,882. The total negative fair value on all the swaps was $20,629,764. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. After June 15, 2006, the Authority will be exposed to tax risk as reflected by the relationship between the rate paid on the outstanding bonds and 68% of one month LIBOR the rate received on the swap. Tax risk is a form of basis risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events.

13. *SUBSEQUENT EVENTS*

After June 30, 2005, the Authority issued the following PPRF Direct Loans, Planning Fund Grants, Water Project Fund/Water Trust Board Grants and Water Wastewater Grants:

	Closing Date		Amount
PPRF Cash Loans:			
City of Bloomfield	7/1/2005	$	216,218
Farmington Municipal Schools	7/1/2005		1,000,000
Lordsburg Municipal Schools	7/15/2005		1,500,000
New Mexico Junior College	7/15/2005		4,589,369
City of Carlsbad	7/19/2005		1,000,000
Dexter Consolidated Schools	8/19/2005		500,000
Bent Fire Department (Interim)	9/2/2005		78,804
Otero County, La Luz Fire Department (Interim)	9/2/2005		187,778
Town of Estancia	9/9/2005		125,339
Town of Elida	9/16/2005		22,500
Vaughn Fire Department (Interim)	9/16/2005		138,889
Truth or Consequences Municipal Schools	9/23/2005		1,750,000
Tierra y Montes Soil and Water	9/23/2005		207,590
Torrance County District 5 Fire Department	9/23/2005		544,537
Tularosa Village	9/23/2005		311,112
Village of Dora (Interim)	9/23/2005		126,550
Sierra County Lakeshore Fire Department (Interim)	9/30/2005		86,000
		$	12,384,686
Planning Grant:			
Quemado Lake Water Association	9/23/2005	$	22,500
		$	22,500
Water Project Fund/Water Trust Board:			
Ute Creek Soil and Water	8/26/2005	$	500,000
		$	500,000
Water Wastewater Grants:			
Villanueva MDWCA	7/1/2005	$	90,000
Ramah Navaho	7/1/2005		345,600
La Bajada Comm Ditch	7/15/2005		87,300
Torreon Chapter Navajo	7/22/2005		400,000
Picuris Pueblo	7/29/2005		108,000
Pecan Park MDWCA	8/26/2005		400,000
Fambrough MDWCA	8/26/2005		396,945
Town of Mesilla	8/26/2005		400,000
		$	2,227,845

13. SUBSEQUENT EVENTS - continued

	Closing Date		Amount
PPRF Revenue Bonds Series 2005A	8/1/2005	$	19,015,000
		$	19,015,000
PPRF Revenue Bonds Series 2005B	8/1/2005	$	13,500,000
		$	13,500,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005C	4/5/2005	$	50,395,000
		$	50,395,000
Taxable Subordinate Lien PPRF Refunding Revenue Bonds Series 2005D	4/5/2005	$	8,660,000
		$	8,660,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005E	8/30/2005	$	23,630,000
		$	23,630,000

Energy Efficiency and Renewable Energy Bonding Fund. House Bill 32 created the Energy Efficiency and Renewable Energy Bonding Fund at the Authority. The Authority would issue bonds based on projected savings and from a $200,000 per month allocation from the General Fund to the Authority. The proceeds from the bonds would be used to pay for energy efficient improvements at state-owned buildings or public schools. The Authority is authorized to issue up to $20 million in bonds for this purpose.

14. RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND

The Behavioral Health Capital Fund was created by legislation in 2004 by Chapter 6, Article 26-4. The fund is a revolving fund consisting of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund.

The purpose of the fund is to make loans to eligible entities to acquire, construct, renovate or improve capital projects. Eligible entities are defined as nonprofit behavioral health facilities with assets totaling less than $10,000,000, are 501(c)(3) nonprofit corporations for federal income tax purposes and serve primarily sick and indigent patients.

14. *RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND - continued*

The Authority administers the fund in conjunction with the New Mexico Department of Health pursuant to the provisions of the Behavioral Health Capital Funding Act (6-26-1 NMSA 1978). The Authority is responsible for all financial duties of the program, including administering the fund. The Department of Health is responsible for defining sick and medically indigent persons for the purpose of determining eligible facilities, establishing priorities for loans and determining the appropriateness of a capital project.

In prior year audited financial statements, the Behavioral Health Capital Fund was reported as a governmental activity. Based on the purpose and administration of the fund, this fund has been reclassified to an enterprise fund in the current year financial statements.

15. *DEFICIT FUND / NET ASSETS*

There is a deficit fund balance in the Economic Development Fund of $381,499. The Child Care Revolving Loan Fund has a deficit of $8,279. The operating fund will cover the deficits in these funds.

16. *PRIOR PERIOD RESTATEMENTS*

In the prior year, the bonds payable and loans receivable in the Public Project Revolving Funds were overstated by $13,435,000 and $11,421,000, respectively. The overstatement was a result of the failure to properly record the transfer of debt and associated loans to the City of Santa Fe. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $2,014,000.

Additionally, two bonds payable in the Public Project Revolving Funds were overstated by $485,000 and $714,877, respectively, due to unrecorded principal payments. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $1,199,877.

In prior years, loans receivable in the Equipment Loan Fund were not recorded on the books of the Authority. The addition of the loans receivable resulted in an increase in fund balance as of June 30, 2004, of $1,015,000.

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
ASSETS:							
Cash and cash equivalents	$ -	287,803	-	360,589	1,415,962	635,892	2,700,246
Receivables:							
Tax revenue receivable	-	-	303,373	83,065	-	4,877	391,315
Interest receivable	-	-	18,054	-	-	-	18,054
Loans receivable	-	-	1,015,000	-	-	-	1,015,000
	-	287,803	1,336,427	443,654	1,415,962	640,769	4,124,615
Restricted assets:							
Cash and cash equivalents held for others by trustee:							
Debt service	-	-	30,623	-	-	-	30,623
Bond reserve	-	-	-	-	-	197,963	197,963
Expense fund	-	-	-	-	-	-	-
Program - grant proceeds for other state agencies	-	-	-	-	-	-	-
Program - bond proceeds	-	-	-	-	-	361,900	361,900
	-	-	30,623	-	-	559,863	590,486
	$ -	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

See Independent Auditors' Report.

AS OF JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
LIABILITIES AND FUND BALANCES:							
LIABILITIES:							
Accounts payable and accrued liabilities	$ 6,406	119	-	80,263	551	-	87,339
Debt service payable	-		-	-	-	-	-
Notes payable	-	-	-	-	-	-	-
Funds held for others	-	-	-	-	-	-	-
Due to other state agencies	-	-	-	-	-	-	-
Due to other funds	375,093	2,867	-	-	13,981	-	391,941
TOTAL LIABILITIES	381,499	2,986	-	80,263	14,532	-	479,280
FUND BALANCES:							
Fund balances (deficit) -							-
reserved for:							-
Debt service	-	-	1,367,050	363,391	-	1,200,632	2,931,073
Special revenue funds	(381,499)	284,817	-	-	1,401,430	-	1,304,748
TOTAL FUND BALANCES	(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821
TOTAL LIABILITIES AND FUND BALANCES	$ -	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

YEAR ENDED JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
REVENUE:							
Tax revenue	$ -	-	713,056	-	-	-	713,056
Grant revenue	-	-	-	-	-	-	-
Interest on loans	-	-	-	-	-	-	-
Interest on investments	-	9,621	-	6,508	33,670	39,495	89,294
Other revenue	-	-	10,032	-	-	-	10,032
TOTAL REVENUE	-	9,621	723,088	6,508	33,670	39,495	812,382
EXPENDITURES:							
Current:							
Administrative fee	-	-	-	18,350	-	-	18,350
Professional services	190,362	3,453	-	-	41,589	1,631	237,035
Salaries and fringe benefits	48,937	(1,646)	-	-	17,623	-	64,914
In-state travel	1,554	(327)			846		2,073
Out-of-state travel	4,211		-	-	66	-	4,277
Maintenance and repairs	1,078	117	-	-	795	-	1,990
Operating costs	15,707	3,840	-	-	8,567	-	28,114
Grant expense	-	213,300	-	-	348,432	-	561,732
Capital outlay	23,888	20,849	-	-	22,281	-	67,018
Debt service:							
Principal payments	-	-	618,296	465,000	-	175,000	1,258,296
Interest expense	-	-	84,187	513,800	-	174,628	772,615
Bond issuance costs	-	-	-	-	-	-	-
TOTAL EXPENDITURES	285,737	239,586	702,483	997,150	440,199	351,259	3,016,414
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(285,737)	(229,965)	20,605	(990,642)	(406,529)	(311,764)	(2,204,032)

See Independent Auditors' Report.

YEAR ENDED JUNE 30, 2005

		Economic Development	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
OTHER FINANCING SOURCES (USES):								
Bond proceeds	$	-	-	-	-	-	-	-
State General Fund appropriations		-	-	85,965	995,913	-	1,088,503	2,170,381
Transfers (to) from other funds		488	57,870	-	-	(13,053)	-	45,305
Transfers to other state agencies		-	-	-	-	-	(738,571)	(738,571)
TOTAL OTHER FINANCING SOURCES (USES)		488	57,870	85,965	995,913	(13,053)	349,932	1,477,115
NET CHANGE IN FUND BALANCE		(285,249)	(172,095)	106,570	5,271	(419,582)	38,168	(726,917)
FUND BALANCE, June 30, 2004		(96,250)	456,912	245,480	358,120	1,821,012	1,162,464	3,947,738
PRIOR PERIOD ADJUSTMENT		-	-	1,015,000	-	-	-	1,015,000
FUND BALANCES, June 30, 2004, adjusted		(96,250)	456,912	1,260,480	358,120	1,821,012	1,162,464	4,962,738
FUND BALANCE, June 30, 2005	$	(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821

SUPPLEMENTAL SCHEDULES

YEAR ENDED JUNE 30, 2005

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	HSBC New York (New York)	Total
Bank accounts:				
Operating account - checking	$ 84,745	-	-	84,745
Wire transfer account	-	-	-	-
Repurchase agreements	-	3,889,896	3,279,691	7,169,587
Total amount of deposits	84,745	3,889,896	3,279,691	7,254,332
FDIC coverage	84,745	-	-	84,745
Total uninsured public funds	-	3,889,896	3,279,691	7,169,587
Collateral requirement @ 102%	-	3,967,694	3,345,285	7,312,979
Pledges and securities:				
FNMA, matures January 1, 2032 Held at Wells Fargo, San Francisco, CA CUSIP 31385H2K9 Par $106,894 Rated by Moody's "AAA"	109,728	-	-	109,728
UST Note, matures November 15, 2005 Held at Wells Fargo, Charlotte, NC CUSIP 912827V82 Par $4,400,000	-	4,441,250	-	4,441,250
UST Note, matures August 15, 2007 Held at JP Morgan Chase, New York, NY CUSIP 9128273E0 Par $3,180,000	-	-	3,412,273	3,412,273
Over/(under) secured	$ 109,728	473,556	66,988	650,272

Pledged collateral amounts are in compliance with the collateral requirement of 102%.

See Independent Auditors' Report.

Schedule 2 - Agency Funds - Schedule of Changes in Assets and Liabilities

YEAR ENDED JUNE 30, 2005

		Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
DEPARTMENT OF TRANSPORTATION					
ASSETS:					
Cash and investments	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL ASSETS	$	-	2,157,505,359	1,494,556,726	662,948,633
LIABILITIES:					
Deposits held in trust for others	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL LIABILITIES	$	-	2,157,505,359	1,494,556,726	662,948,633
		-	-	-	-

SINGLE AUDIT

YEAR ENDED JUNE 30, 2005

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Environmental Protection Agency:		
Capitalization Grants for Drinking Water State Revolving Funds	66.648	$ 2,980,318
Total EPA		$ 2,980,318
Funds passed through to sub-receipients		$ 2,569,690

Loans funded	Original Balance	Balance at June 30, 2005
Revolving loans		
Loans funded in previous years	$ 21,162,361	16,812,533
Total loans funded	$ 21,162,361	16,812,533

The revolving loans are funded through a mix of 80% federal and 20% state monies.
The technical set-aside loans are funded with 100% federal monies.

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Authority.

BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Authority's general purpose financial statements.

Reconciliation to Financial Statements (page 25)

Transfers to other state agencies	$	2,569,960
Total non-interest expense		410,358
Total EPA expenditures	$	2,980,318

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

MEYNERS + COMPANY, LLC
Certified Public Accountants/ Consultants to Business
500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2005. We have also audited the financial statements of each of the Authority's nonmajor governmental funds presented as supplementary information in the combining fund financial statements as of and for the year ended June 30, 2005, and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompany schedule of findings and questioned costs as items 05-01, 05-02 and 05-12. We noted other matters involving the internal control over financial reporting that are required to be reported per section 12-6-5 NMSA 1978, and are detailed in findings 05-03 and 05-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the Authority, the State of New Mexico Office of the State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

December 9, 2005

MEYNERS +
COMPANY, LLC
Certified Public Accountants/
Consultants to Business

500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the financial statements of the New Mexico Finance Authority (Authority), with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance 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, and OMB Circular A-133, *Audits of States, Local Governments, and Not-For-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Authority, the State of New Mexico Office of the State Auditor, and the cognizant audit agency and other federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

December 9, 2005

YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Finance Authority (Authority).

2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Authority.

3. Three reportable conditions were disclosed during the audit of the financial statements and are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

4. There were no reportable conditions in the internal control over major programs disclosed by the Authority.

5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.

6. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

7. The program tested as a major program is:
   Capitalization Grants for Drinking Water State Revolving Fund
   CFDA Number 66.648

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

05-01 OBTAINING SIGNED AUDIT CONTRACT PRIOR TO COMMENCEMENT OF WORK (Reportable Condition)

Reportable Condition: The Authority did not have sufficient procedures to ensure that all necessary compliance requirements were met prior to allowing the audit to commence. The Office of the State Auditor noted that the Authority's auditors began work on the fiscal year 2005 audit without a State Auditor signed contract in place.

Criteria: Section 12-6-14, NMSA 1978, states "each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the state auditor. . ."

Cause: A contract was approved by the Authority's Board, signed by the Authority and the audit firm and submitted to the Office of the State Auditor. The State Auditor contacted the Authority and required that the contract be revised to comply with its requirements for including special provisions. Due to a change in personnel at the Authority and at the audit firm, the contract was not resubmitted to the Office of the State Auditor prior to the commencement of the audit.

Effect: The Authority is out of compliance with State Statute, the Procurement Code and State Auditor Rules. It is possible that the audit would not have been accepted by the Office of the State Auditor. However, the Office of the State Auditor has now signed the revised contract.

Auditors' Recommendation: The Authority should ensure that the audit contract is signed by the State Auditor before the commencement of the audit.

Agency Response: The Authority agrees with the finding as reported above. In the future, the CFO of the Authority will assume direct responsibility for obtaining all required signatures on the contract and delivering the contract to the Office of the State Auditor.

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES (Reportable Condition)

Reportable Condition: The Authority did not have formal procedures in place that require additional technical review of unusual or infrequent journal entries. Since the Authority keeps its books on a cash basis, many of these journal entries relate to accruals and are only recorded at year-end.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES - continued

Criteria: Unusual or infrequent journal entries inherently have a higher risk that the associated transaction could be posted incorrectly. Additionally, the Authority's transactions are more complex than that of many other organizations.

Cause: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2A, the Authority had not recognized the benefits of obtaining additional review of unusual or infrequent journal entries.

Effect: Significant adjusting journal entries were identified during the audit preparation process by the Authority and by the auditors, including prior period adjustments, adjustments to record fund activity for a fund that had been converted from a trust fund, new bond issue activities, etc.

Auditors' Recommendation: The Authority should establish procedures to require approval of significant or unusual journal entries, including obtaining appropriate advice from its outside advisors and independent auditors, as transactions occur throughout the year.

Agency Response: The Authority agrees with the finding as reported above. Additional reconciliation procedures were put in place during FY 2005, which enabled Authority staff to identify necessary adjustments. Such procedures will be strengthened prior to the next audit. Complex transactions will be discussed with both our external and internal auditors to ensure proper accounting treatment.

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY

Reportable Condition: The Authority disposed of old and unused fixed assets during the current fiscal year. The Authority did not follow New Mexico State Auditor rules regarding the submission of a list of fixed asset deletions as required by State Auditor Rule.

Criteria: Per SAO 2.2.2.10 W, the Authority is subject to the State Auditor rules and should have notified the State Office prior to the disposal of fixed assets.

Cause: The Authority was not aware of the requirement to notify the State Auditor prior to the disposition of fixed assets.

Effect: The Authority is in violation of State Auditor rules.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY - continued

Recommendation: The Authority should adopt fixed asset disposition procedures that are consistent with State Auditor rules and other state laws and regulations.

Agency Response: The Authority disposed of most property by donating it to schools. No Authority property has ever been purchased through the State procurement system and belongs solely to the Authority. However, in the future all asset dispositions will be first cleared with the State Auditor's Office.

05-04 PERFORMING A PHYSICAL INVENTORY OF FIXED ASSETS

Condition: The Authority does not tag its fixed assets to identify its property.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 14, Section 3.4A, the tagging of fixed assets facilitates the taking of the annual inventory and identifies property belonging to the Authority.

Cause: Staff shortages have prevented the Authority from implementing this internal control procedure.

Effect: Fixed assets could be stolen, misplaced or disposed of without Authority knowledge.

Recommendation: The Authority should tag all of its fixed assets.

Agency Response: A new tagging system was implemented during FY 2006. The new tagging system is known as the Dymo Letra Tag.

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY

Condition: The Authority has numerous transactions between funds and certain other state agencies. Some of this activity is not segregated from other receivables, payables and transfers within the Authority's general ledger.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY - continued

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 9, Section 9.1, segregation of all interfund and interagency activity makes it easier to reconcile this activity with the corresponding agency or fund. Interfund and interagency transactions must be presented separately in the Authority's audited financial statements so that such activity can be eliminated in the state wide financial statements.

Cause: The Authority has significant transactions with other agencies and between funds as part of its normal operating process. Segregation of these transactions has not been identified as a necessity.

Effect: Preparation of the statewide financial statements is more difficult when these accounts are not segregated.

Recommendation: All interfund and interagency activity should be separated in the general ledger with unique general ledger account codes.

Agency Response: The Authority will create unique general ledger codes in order to ensure that interfund and interagency activity can be easily identified.

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS

Condition: Fees and costs are collected from entities to which the Authority has loaned money. In certain cases, these fees and costs have been recorded as liabilities held for offering costs. While in some cases these liabilities may represent deferred revenue for amounts collected in advance, in other cases these liabilities could actually be restricted revenue.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 3B, Section 3, improper treatment of these fees and costs could result in an understatement of revenue and fund balances.

Cause: The Authority's current finance personnel have not yet had the opportunity to review the historical treatment of transactions to evaluate whether the historical treatment is consistent with governmental accounting standards.

Effect: Immaterial liabilities are included in the Authority's financial statements that are not supported by adequate documentation, resulting in an overstatement of liabilities.

***B. FINDINGS - FINANCIAL STATEMENT AUDIT** - continued*

***05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS** - continued*

Recommendation: The treatment of the liabilities should be researched and a determination should be made as to whether these accounts are recorded properly in accordance with governmental accounting standards.

Agency Response: Accounting staff will complete a review and reconciliation during FY 2006 to determine the correct disposition of any immaterial liabilities that exist and determine the proper accounting treatment of such liabilities.

05-07 CAPITALIZING BOND OFFERING COSTS

Condition: In reviewing expenditure activity, it was noted that certain bond-offering costs were recorded in professional fee and other expense accounts.

Criteria: The Government Accounting Standards Board (GASB) requires that bond offering costs for enterprise funds be capitalized and amortized over the life of the bond. For governmental fund types, theses costs should also be segregated in the general ledger for proper presentation in the Authority's full accrual-based financial statements.

Cause: On occasion, invoices for bond offering costs are received substantially after the bond has closed. As a result, these invoices are inadvertently charged to incorrect accounts.

Effect: Expenses could be overstated by the amount of unamortized bond offering costs.

Recommendation: All bond offering costs should be identified and charged to the appropriate general ledger account.

Agency Response: In prior periods, it was felt that one administrative account held at the trustee could be established for the purpose of paying bond offering costs. However, as the level of activity has increased at the Authority, separate accounts for each bond offering will be established for the purpose of tracking bond offering costs.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-08 RECORDING UNEMPLOYMENT INSURANCE EXPENSE

Condition: The Authority is self-insured for unemployment insurance. The Authority estimates and accrues the estimated unemployment insurance. The expense is charged to the various funds. The Authority has not experienced significant unemployment insurance claims. In the current fiscal year, there were no payments for unemployment claims. However, an expense was recorded for the estimated liability.

Criteria: Per DFA's *Model Accounting Practices,* Volume I, Chapter 6, Section 3, unemployment insurance expense is charged to programs when there is no unemployment insurance incurred.

Cause: The Authority has not reviewed their procedures for recording accruals due to staff shortage during the current fiscal year.

Effect: Accrued liabilities and expenses could be overstated.

Recommendation: A reasonable accrual for unemployment insurance is appropriate when self-insured. However, the reasonableness of the accrual should be reviewed and adjusted on an annual basis.

Agency Response: Accounting staff will review the accrual made for the purpose of recording unemployment insurance expense. It is probable that the accrual will be eliminated in favor of recording only actual expenses incurred.

05-09 CLOSING INACTIVE TRUST ACCOUNTS

Condition: The Authority has numerous trust accounts. Many of these trust accounts have no balances. Some of these accounts are related to loans that have been paid off.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 4, Section 4, proper internal control procedures would require that all inactive trust accounts be closed promptly.

Cause: The Authority does not actively monitor the status of trust accounts held at the trustee, Bank of Albuquerque, and relies on the trustee to identify accounts that should be closed.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-09 CLOSING INACTIVE TRUST ACCOUNTS - continued

Effect: Trust accounts that remain open after the related loan activity has ceased create a risk that individuals may access the account for fraudulent purposes or that activity is being recorded in an improper account

Recommendation: The Authority should review the status of trust accounts on a regular basis and take a more active role in initiating account closures.

Agency Response: The Authority will take a more active role in reviewing inactive trust accounts and discussing their closure with the trustee. However, it is important to note that these accounts may remain open during at least one fiscal year after activity has ceased in the account. These trustee accounts belong to the borrower, not the Authority.

05-10 CLEARING RECONCILING ITEMS

Condition: The Authority has immaterial reconciling items in its wire transfers account that date back to the prior fiscal year. The origin of the items is well documented by Authority staff, but the journal entry to record the items had not been completed as part of year-end closing.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2, reconciling items should be recorded timely to ensure accurate account balances.

Cause: The shortage of staff during the current fiscal year has resulted in certain immaterial adjusting entries not being recorded on a timely basis.

Effect: The bank account is overstated by the amount of the reconciling items.

Recommendation: Adjusting entries to the wire transfers account should be reviewed as part of the monthly bank reconciliation process and made on a timely basis.

Agency Response: Reconciling items will be more closely reviewed on a monthly basis to ensure that all items are cleared.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-11 ANNUAL AFFIRMATION OF CODE OF CONDUCT

Condition: The Authority had all employees sign a Code of Conduct policy in September/October 2004 due to a revision of the policy.

Criteria: Sound internal control procedures dictate that code of conduct and conflict of interest policies should be reviewed on a regular basis. Recent events in both corporate and government settings reflect the need to enhance awareness of and consent to code of conduct and conflict of interest policies.

Cause: Current events have increased the awareness of the importance of an annual review of these policies by all employees.

Effect: Failure to annually review and affirm code of conduct and conflict of interest policies could lead to lapses in employee compliance with such policies.

Recommendation: The Authority should require all employees to review and sign a code of conduct and a conflict of interest policy annually.

Agency Response: In discussions with the Human Resources Director, the affirmation of the Code of Conduct will be conducted on an annual basis. The policy will be reviewed with employees and they will sign off on a statement acknowledging review of the policy.

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS (Reportable Condition)

Condition: New Mexico Finance Authority did not file their fiscal year 05 financial statements on time to the State Auditor's office.

Criteria: Per section 2.2.2.9A(1)(f) of the State Auditor rulebook, state agency reports are due no later than December 15.

Cause: Due to turnover in personnel, the auditors did not have the report completed in time for management to review the financial statements.

Effect: Not in compliance with the State Auditor rulebook section 2.2.2.9A(1)(f).

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS - continued

Recommendation: The audit will begin earlier for FY06 to ensure meeting the State Auditor deadline.

Agency Response: Authority accounting staff will ensure that the outside auditor begins the audit earlier in FY 2006, provides accounting staff with a list of necessary documents and schedules prior to commencing the audit (at an earlier date than in FY 2005), and provides audit personnel with a sufficient level of expertise to conduct audit fieldwork.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

04-01 Drinking Water State Revolving Fund - Cash Draw and State Match Requirements --

Current Status - Cash Draw: The Authority is reimbursing participant loans with funds already drawn down until these funds have been exhausted.

Current Status - State Match Requirements: Resolved

An exit conference was held with the Authority on December 12, 2005. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

William C. Sisneros, Executive Director
Jerome Trojan, Chief Operations Officer
Joe Gosline, Chief Financial Officer
James Jimenez, Audit Committee Chairman
Grace Romero, Finance Manager

MEYNERS + COMPANY, LLC

Reta Jones, Principal
Georgie Ortiz, Senior Audit Manager

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Independent Auditor.

NEW MEXICO
DEPARTMENT OF
TRANSPORTATION

Financial Statements
for the Year Ended
June 30, 2006,
and Independent
Auditors' Report

Table of Contents

Page

Year Ended June 30, 2006

Commission

Johnny Cope	Chairperson	Hobbs
David Schutz	Vice-Chairperson	Santa Fe
Gregory T. Ortiz	Secretary	Pueblo of Acoma
John Hummer	Member	Las Cruces
Jim Franken	Member	Las Vegas
Norman Assed	Member	Albuquerque

Administrative Officer

Rhonda G. Faught, P.E.	Cabinet Secretary

MEYNERS + COMPANY, LLC
Certified Public Accountants/ Consultants to Business
500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

INDEPENDENT AUDITORS' REPORT

Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds and the budget comparison for the enterprise fund presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2006, as listed in the table of contents. We also have audited the combined budget comparisons for the special revenue and debt service funds presented as required supplemental information. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position, and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the

Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

aggregate remaining fund information of the Department as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2006, and the respective changes in financial position thereof, and the budget comparisons for the enterprise fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combined budget comparison referred to above presents fairly, in all material respects, the budget comparison of all the major and non-major special revenue funds and debt service funds of the Department for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1 to the financial statements, the Department changed to the modified accrual basis for the encumbrances and the budgetary comparisons.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2006, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements and the budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Meyners + Company, LLC

December 11, 2006

As management of New Mexico Department of Transportation (Department), we offer the readers of the Department's financial statement this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in footnotes to the basic financial statements, which can be found on pages 28 through 78 of this audit report.

Financial Highlights

The Department's net assets declined by $285,021,429, mainly due to depreciation expense of $514,838,292. The net assets of the Department's governmental activities decreased by $285,589,213 due to increases in contractual services, capital outlay and debt service expenditures related to GRIP Bond Projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components:
1) government-wide financial statements, 2) major governmental fund financial statements, and 3) notes to the financial statements. This report also contains other non-major combining and individual governmental fund statements and supplementary information, including the schedule of expenditures of Federal awards, in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to private sector business.

The Statement of Net Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The Statement of Activities presents information showing how the Department's net assets changed during the fiscal year. All changes in net assets are reported when 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 result in cash flows in future fiscal periods.

Government-Wide Financial Statements - continued

The Department's primary purpose is the construction and maintenance of the infrastructure of the State of New Mexico. Thus, in the government-wide financial statements, the primary function is public works.

The government-wide financial statements can be found on pages 20 through 22 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department are divided into two categories: governmental funds and proprietary fund.

- Governmental Funds

  Governmental funds are used to account for essentially 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 current resources and use of spendable resources, as well as on balance 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.

  Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheets and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

  The Department has 34 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

  - *Ten percent criterion.* An individual governmental fund reports as least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund expenditures.

Fund Financial Statements - continued

- *Five percent criterion.* An individual governmental fund reports at least 5 percent of the total for both governmental *and enterprise* funds of any of the items for which it met the 10 percent criterion.

The Department's major governmental funds are the following:

State Road Fund – The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all the Department's financial activities.

2004A CRIP Bond Project Fund – The bond project fund was created when the $700,000,000 New Mexico State Transportation Subordinate Lien Revenue Bonds Series 2004A were issued through the New Mexico Finance Authority (NMFA) in May 2004. The funds from the sale of the Debentures were required to be deposited in a special account with the NMFA. Unspent proceeds are on deposit with the NMFA and recorded as due from other state agencies. The funds are used to finance State Transportation projects.

Local Government Road Fund – The local government road fund was created by Section 67-3-28.2, NMSA 1978. This fund is used to account for monies received for (1) cooperative agreements program for construction and improvement of public highways and streets, and public school parking lots; (2) a municipal arterial program for construction for reconstruction of highways and streets not on the state highway systems; (3) a school bus route program for maintaining, repairing, improving and paving school bus routes, and public school parking lots; and (4) a county arterial program for construction, reconstruction, improvement and maintenance of county roads. Funding is received from state excise taxes.

Debt Service Fund - 2001 CHAT – This fund was created when the $198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001 A were issued in March 2001.

Debt Service Fund - 2004A CRIP – This fund was created when the $700,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bond Series 2004A were issued through the New Mexico Finance Authority in 2004.

Fund Financial Statements - continued

Debt Service Fund - 2004B and C GRIP – This fund was created when the $237,950,000 and $200,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bonds Series 2004B and Series 2004C were issued through the New Mexico Finance Authority in May 2004.

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 two major funds. Data from the other 28 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report. See pages 84 through 91.

- Enterprise Funds

The Department has one type of proprietary fund. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses its enterprise fund to account for the State Infrastructure Bank, since its purpose is to make loans for road projects.

Proprietary funds provide the same type of information as the government-wide financial statements. The proprietary fund financial statements provide separate information for the State Infrastructure Bank since it is considered to be a major fund of the Department.

The basic proprietary fund financial statements can be found on pages 27 through 29 and the cash flow statement is on page 30 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 82 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information including the Schedule of Severance Tax Bonds, Schedule of Special Appropriations, Schedule of Petty Cash Deposit Accounts, Schedule of State Road Fund User and Fuel Taxes, Schedule of Debt Service and Coverage Ratios and the Schedule of Expenditures of Federal Awards.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. At June 30, 2006, the Department's assets exceeded liabilities by $6,379,176,856.

The largest portion of the Department's net assets reflect its investments in capital assets (e.g., land, building, equipment, improvements, and infrastructure) less any debt and unspent bond proceeds used to acquire those assets that are still outstanding. Although the Department's investment in its capital assets is reported net of related debt and unspent bond proceeds, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Department's Net Assets

As of June 30, 2006 and 2005, the Department has positive balances in two categories of net assets, both for the government fund financial statement as a whole, as well as for its separate categories - governmental and business-type activities. Table A-1 summarizes the Department's net assets for the fiscal years ended June 30, 2006 and 2005.

Government-Wide Financial Analysis - continued

Table A-1
The Department's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2006	2005	2006	2005	2006	2005
Current and other assets	$	758,039,314	992,747,097	18,883,637	25,717,013	776,922,951	1,018,464,110
Capital assets and other		7,232,952,905	7,319,984,025	-	-	7,232,952,905	7,319,984,025
Total assets		7,990,992,219	8,312,731,122	18,883,637	25,717,013	8,009,875,856	8,338,448,135
Current liabilities		225,605,680	214,137,729	-	7,401,160	225,605,680	221,538,889
Long-term liabilities		1,405,093,320	1,483,499,676	-	-	1,405,093,320	1,483,499,676
Total liabilities		1,630,699,000	1,697,637,405	-	7,401,160	1,630,699,010	1,705,038,565
Net Assets:							
Invested in capital assets, net of related debt and unspent bond proceeds		5,756,153,765	5,998,598,694	-	-	5,756,153,765	5,998,598,694
Restricted		601,139,454	616,495,023	18,883,637	18,315,853	18,883,637	634,810,876
Total net assets	$	6,360,293,219	6,615,093,717	18,883,637	18,315,853	6,379,176,852	6,633,409,570

Analysis of the Department's Operations: Table A-2 provides a summary of the Department's operations for the years ended June 30, 2006 and 2005. Governmental activities decreased the Department's net assets by $285,589,213 in 2006 and by $255,923,450 in 2005. Business-type activities increased the Department's net assets by $567,784 in 2006 and $312,969 in 2005 due to interest income earned during the year.

Government-Wide Financial Analysis - continued

Table A-2
Changes in the Department's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2006	2005	2006	2005	2006	2005
Revenues:							
Program revenues:							
Capital grants	$	346,858,920	292,939,098	-	-	346,858,920	292,939,098
Operating grants		19,247,338	14,624,653	-	-	19,247,338	14,624,653
Charges for services		13,679,470	4,109,036	-	-	13,679,470	4,109,036
General revenues:							
Taxes		412,271,395	383,418,826	-	-	412,271,395	383,418,826
Interest income		27,191,910	13,052,347	567,784	312,969	27,759,694	13,365,316
Gain on disposal of assets		428,050	646,533	-	-	428,050	646,533
Total revenues		819,677,083	708,790,493	567,784	312,969	820,244,867	709,103,462
Expenses::							
Public works		507,163,867	375,622,936	-	-	507,163,867	375,622,936
Depreciation		514,838,292	502,651,435	-	-	514,838,292	502,651,435
Interest on long-term debt		75,087,737	77,615,938	-	-	75,087,737	77,615,938
Other		-	896,939	-	-	-	896,939
Total other expenses		1,097,089,896	956,787,248	-	-	1,097,089,896	956,787,248
Net revenues (loss) before transfers and reversions		(277,412,813)	(247,996,755)	567,784	312,969	(276,845,029)	(247,683,786)
Transfers and reversions		(8,176,400)	(7,926,695)	-	-	(8,176,400)	(7,926,695)
(Decrease) increase in net assets		(285,589,213)	(255,923,450)	567,784	312,969	285,021,429	(255,610,481)
Net assets, beginning of year		6,615,093,717	6,911,160,952	18,315,853	18,002,884	6,633,409,570	6,929,163,836
Adjustments		30,788,715	(40,143,785)	-	-	30,788,715	(40,143,785)
Net assets, end of year	$	6,360,293,219	6,615,093,717	18,883,637	18,315,853	6,379,176,856	6,633,409,570

Government-Wide Financial Analysis - continued

The changes in net assets for the Department's major funds for 2006 are as follows:

State Road Fund	$	(18,452,884)
2004 GRIP Bond Project Fund		(223,764,967)
Local Government Road Fund		2,169,853
2004B/C GRIP Debt Service		-
2001 CHAT Debt Service		410,079
2004A GRIP Debt service		1,639,383
Major funds, net change in assets	$	237,998,536

Financial Analysis of the Government's Funds

Governmental Funds

The Department's governmental funds are designed to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the Department's governmental funds reported combined ending fund balances of $661,109,285, a decrease of $229,589,491 from the prior year. Fund balance is reserved to indicate that it is not available for new spending because it has already been committed to provide for inventories, long term assets and prepaid items and other reserved items of $601,139,454.

Budgetary Highlights

The Department budgets on a non-GAAP basis and not all funds are budgeted. See Exhibit 8 and Exhibit 11 for the Department's budget. The Department made revisions to the original approved budget by $(54,138,044). Overall, these changes were caused by the following significant budget adjustments.

Increase in budget to replenish D-6's budget used for warranty work on U.S. 550	$	6,344,168
Increase in budget to increase cash balance and loan repayments		12,224,326
Increase in budget for Federal Highway Administrative allocation		116,738,710

***Budgetary Highlights* - continued**

Increase in budget to fund projected shortfall in personnel services and employee benefits, grants and services for Alcohol Countermeasure Project	$	6,863,973
Increase in budget to fund projected shortfall in personnel services and employee benefits		3,520,000
Increase in budget to fund projected shortfall in GRIP Road Project		1,238,000
	$	143,412,697

Capital Assets Overview

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to $7,180,782,368 (net of accumulated depreciation). This investment in capital assets includes land, right of way, buildings, equipment, improvement and the infrastructure.

Major Infrastructure Projects

The Department develops plans to build a transportation system that will better serve the State of New Mexico. Advanced and innovative strategies include building roads using a corridor approach, where an entire route between communities is built. By designing and constructing entire corridors, the Department has been able to realize efficiencies to benefit the state. The Department also employs innovative project development techniques, warranty agreements and highly advanced financing techniques to accomplish the objectives of the Major Investment Program.

Fiscal Year 2005-2006 Active Projects with a contract amount of $10 million or more:

Sunland Park Drive Extension (phase II) for 1.320 km
I-10, MP 34.200 to MP 44.800 for 10.600 miles
US 54, MP 189.0 to 200.6, Vaughn to Duran for 11.610 Miles
I-25, 2.48 km North of Alameda Interchange to Tramway
I-40/Coors Interchange
I-40, Pennsylvania to Tramway MP 163.64 to MP 167.88
I-40, MP 169 to MP 174 for 4.602 miles
I-40, MP 180.08 to 182.74, Sedillo Hill for 4.360 km
NM 209, South of I-40 Interchange to NM 104/Maple Ave.
1-40, Newkirk Interchange-East MP 300 to Mp 308 for 8.570

Capital Assets Overview - continued

US 64, Widening Project Raton to Clayton for 10.601 Miles
US 64, Raton to Clayton for 11.332 miles
US 64, MP 411 to MP 422 for 10.930 miles
1-40, MP 291 to MP 299 for 8.170 Miles
1-40, Business Loop, Santa Rosa for 3.400 km
US 84/285 North of Santa Fe from Opera House
NM 14, 0.5 Miles North of Cerrillos to Lone Butte
US 550, MP 18.231 to MP 23.301 for 8.190 km
US 84/285, Santa Fe Relief Route to Santa Fe Opera
1-40, MP 12 to 17, Gallup for 5.000 Miles
US 491 and NM 602 for 3.100 miles
US 70 D/B, MP 264.2 to MP 302.1, Ruidoso Downs to Riverside
US 84/285 North of Santa Fe from Santa Fe Opera
US 84/285, Santa Fe Relief Route to Santa Fe Opera

Equipment

For fiscal year 2006, the Equipment non-GAAP budget total was $10.5 million. Of this budget, $10.5 million was fully expended at June 30, 2006. Equipment purchased includes pickups, dump trucks, rollers, excavators, mowers, tractors, loaders, snowplows, brooms, dozers, motor graders, spreaders, millers, trailers, motor vehicles, etc. All items are approved during the legislative session prior to July of each fiscal year. The Department holds several sales and public auctions during the year to liquidate old and obsolete equipment to public and private entities.

Table A-3
Department's Capital Assets

		2006	2005
Land	$	**5,063,076**	5,064,678
Right of way		**371,809,740**	360,549,775
Infrastructure		**15,110,054,777**	15,069,367,358
Equipment and furniture		**50,982,903**	50,050,041
Buildings		**37,589,491**	36,706,531
Vehicles		**165,716,344**	159,575,253
Accumulated depreciation		**(98,560,433,963)**	(8,361,329,611)
Total	$	**7,180,782,368**	7,319,984,025

Additional information on the Department's capital assets can be found in Note 9 of this report.

Debt Administration

The Department is authorized to issue bonds by authority of Section 67-3-59.1 of the New Mexico Statutes Annotated (NMSA)(1978), as amended. The focus of the Department's bond program is to accelerate transportation construction projects while maintaining strong debt service coverage ratios and minimizing the costs of borrowing.

At June 30, 2006, the Department had a total outstanding debt (bonds) of $1,455,505,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

Table A-4
Department's Outstanding Debt

	2006	2005
Bonds, net	$ 1,455,505,000	1,536,635,000

The Department is authorized to issue bonds by authority of Section 67-3-59.1 of the New Mexico Statutes Annotated (NMSA)(1978), as amended. The focus of the Department's bond program is to accelerate highway construction projects while maintaining strong debt service coverage ratios and minimizing the costs of borrowing.

At the end of June 30, 2006, the Department had a total outstanding debt including capitalized leases and bonds, of $1,455,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

The Department's total bond debt decreased by 5.28%, or $81,130,000. Total outstanding bond debt at the end of the fiscal year was $1,455,505.000, compared to $1,536,635,000 at end of the 2005 fiscal year. Key factors affecting the department's twelve outstanding bond issues during the current fiscal year included bond principal repayments totaling $81,130,000. The Department also made $74,895,585 in interest payments during the fiscal year. The Department did not issue any new bonds during the current fiscal year. See Note 12 for a detail of all debt outstanding.

The Department did not pay any rebatable arbitrage to the Internal Revenue Service for any excess income earned on bond proceeds during the fiscal year, and did not have any remaining arbitrage liability at the end of the fiscal year.

Economic Factors and Revenue Forecasts

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the twelfth fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent. Most of this population growth is occurring in or near the larger cities. There are three Metropolitan Statistical Areas (MSA) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is Dona Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Dona Ana.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing and mining. In 2002, the value of energy resources production (crude petroleum, natural gas and coal) was approximately $6.5 billion. Total value of energy and other mineral production was $7.8 billion. The mining industry employed about 14,000 New Mexicans in 2002. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The state's major transportation routes include Interstate-25, running north-south from El Paso, Texas through Las Cruces, Albuquerque, Santa Fe, Las Vegas and Raton, New Mexico toward Pueblo and Denver, Colorado. Major east-west routes, especially important to interstate commercial carrier traffic, include Interstate-10 from El Paso, Texas to Tucson and Phoenix, Arizona, and Interstate-40 from Amarillo, Texas through Tucumcari, Albuquerque and Gallup, New Mexico to Flagstaff, Arizona.

Revenue Forecasts and Budgets

Federal Revenue

FHWA Revenue: The amount of FHWA revenue (obligation authority) available to all states was limited in recent years as a result of Congress' failure to pass a transportation reauthorization bill, and to rely on continuing resolutions to provide FHWA funds. The amounts available to New Mexico were $276 million in FY2005 and $275 million in FY2006. In FY2006, the continuing resolution continued to limit the expenditure of FHWA funds through the year. However, a reauthorization bill was finally passed that increased funding for FY2006 and the subsequent four years. The reauthorization bill provides apportionment" or annual distribution amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Federal Revenue - continued

FHWA Revenue - continued:
The Department projects FHWA aggregate authorization should increase over the four year period as follows: $325 million in FY2005, $333 million in FY 2006, $350 million in FY 2007, $365 million in FY 2008, and $371 million in FY 2009.

Federal Transit and Traffic Safety Revenue: The six-year reauthorization of federal transportation funding to the states that was recently passed by Congress is entitled the "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21st Century – A Legacy for Users" (SAFETEA-LU). The reauthorization bill stresses the importance of safety innovations, including a new "Safe Routes to School Program" that promotes walking and riding bicycles to school. With this emphasis on safety, it is expected there will be increased federal revenue available to states for traffic safety and transit programs. The Department anticipates the total amount of funding from the Federal Transit Administration (FTA) and federal traffic safety (NHTSA) will increase from the $13 million level in past years to $20.1 million in FY 2007.

DOE Revenue: The Department of Energy will continue to provide New Mexico with approximately $20 million per year through FY 2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, New Mexico. The amount of this revenue budgeted for debt service was $20.7 million in FY 2004, $21.1 million in FY 2005, $19.8 million in FY2006, $15.7 million in FY 2007, and $14.7 million in FY 08.

State Revenue

The budget estimate for state tax and fee revenue to the Department is prepared in July/August and December/January each year for the budget year ending 24 months (or 18 months) later.

In the past several years, gasoline tax revenue has came in very close to the budget forecast, with gains associated with tribal tax sharing agreements being offset by losses associated with higher gasoline retail prices and slight decreases in consumption. Diesel fuel tax revenue came in stronger than forecast, and reflected an invigorated trucking industry relative to the prior few years. Other truck taxes came in close to forecast, but reflected some degree of tax compliance problems, since one would expect those taxes to show the same strength shown in diesel fuel tax. Vehicle registration revenue has come in close to the forecast. Motor Carrier related taxes represent a significant contribution to the State Road Fund.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue - continued

Special Fuels Tax

New Mexico's Special Fuels Tax is unit tax imposed on gallons used – an increase in price does not result in an increase in tax revenue. FY 06 was very strong for Special Fuels Tax revenue yielding 11% more than the amount collected in FY 05. The forecast for FY 08 is for $103.4 million which amounts to an increase of 7.7% over the FY 07 budget. The relative strength of fuel tax revenues has significant impact on the Department of Transportation's overall revenue forecast.

The revenue forecast for the FY2007 proposed budget has assumed a continued healthy national economy, but with motor fuel retail prices settling at a new higher level. Compliance improvements in Trip Tax revenue associated with the new vehicle-specific weight-distance tax identification permit appear to have increased.

Background -- Trip Tax and the Weight-Distance Tax Identification Permit: The elimination of the $6 fee associated with Weight-Distance Tax Identification Permits (tax qualification cards), pursuant to the settlement of *C.R. England v. New Mexico* resulted in a reported large increase in the number of tax qualification cards requested by the industry in 2003 and 2004, and probably explains the decrease in revenue associated with the higher Trip Tax rates administered at state ports-of-entry. Legislation passed during the 2003 Special Session of the Legislature required a return to issuing Weight Distance Tax Identification Permits to individual vehicles rather than issuing a single permit to each motor carrier company. The vehicle-specific tax identification permit (effective July 1, 2004, but not widespread until January 1, 2005) was expected to enhance tax compliance efforts and gradually augment Trip Tax revenue to some degree beginning in calendar year 2005. Beginning in March 2005, Trip Tax revenue began to increase dramatically.

Background -- Gasoline Tax and Tribal Tax Sharing Agreements: 2003 and 2004 legislation allowed the state to enter into "tax sharing agreements" with the two Native American Pueblos that were previously entitled to market a limited amount of state-tax-free gasoline outside reservation boundaries. Under the agreements, 40% of the tax collected on 30 million gallons of gasoline per year will be shared with each of the two Pueblos, in exchange for the Pueblos ceasing their sales activities outside reservation boundaries. The result of these agreements (entered into on January 1, 2004 and July 1, 2004) should be a small revenue gain for the state and significantly more predictable gasoline revenues.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue - continued

The state permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. The growth in tribal market share has out-paced the overall growth rate of gasoline in recent years as a result of competitive pricing, casino traffic, and development of new tribal travel centers. It is anticipated that the tribal market share will continue to grow, but at a decreasing rate over the next few years.

Contacting the Agency's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators and investors and creditors with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Attn: Elias J. Martinez, M.B.A.
Financial Reporting Manager
New Mexico Department of Transportation
1120 Cerrillos Road
P.O. Box 1149
Santa Fe, New Mexico 87504-1149
(505) 827-5155

FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

		Governmental Activities	Business-type Activities (State Infrastructure Bank	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Note 2):				
Unrestricted	$	91,680,839	-	91,680,839
Restricted		511,288,266	10,765,589	522,053,855
Receivables:				
Tax receivable		48,508,742	-	48,508,742
Accounts receivable, net (Note 3)		2,265,342	-	2,265,342
Severance tax bond proceeds receivable (Note 4)		55,475,345	-	55,475,345
Interest receivable		2,506,733	75,801	2,582,534
Notes and loans receivable (Note 5)		27,672	8,042,247	8,069,919
U.S. Department of Transportation, net (Note 6)		25,100,543	-	25,100,543
Capitalized issuance costs		833,960	-	833,960
Inventories (Note 8)		12,514,297	-	12,514,297
Prepaid expense - warranty		3,189,034	-	3,189,034
Property held for resale, net		4,648,541	-	4,648,541
TOTAL CURRENT ASSETS		758,039,314	18,883,637	776,922,951
NON-CURRENT ASSETS:				
Capitalized issuance costs		9,721,205	-	9,721,205
Prepaid expense - warranty		42,449,332	-	42,449,332
Capital assets, net (Note 9)		7,180,782,368	-	7,180,782,368
TOTAL NON-CURRENT ASSETS		7,232,952,905	-	7,232,952,905
TOTAL ASSETS	$	7,990,992,219	18,883,637	8,009,875,856

AS OF JUNE 30, 2006

		Governmental Activities	Business-type Activities (State Infrastructure Bank	Total
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable and contracts payable, including retainage of $5,890,401	$	53,209,418	-	53,209,418
Due to other state agencies		-	-	-
Accrued payroll, taxes and withholdings		8,066,115	-	8,066,115
Accrued interest		3,120,649	-	3,120,649
Deferred revenue		21,689,504	-	21,689,504
Arbitrage rebate obligation (Note 21)		-	-	-
Other liabilities		105,019	-	105,019
Due to others - Severance Taxes		55,475,345	-	55,475,345
Current portion of long-term obligations (Note 12):				
Compensated absences		5,100,000	-	5,100,000
Debentures payable		75,295,000	-	75,295,000
Capitalized bond premium		4,276,465	-	4,276,465
TOTAL CURRENT LIABILITIES		226,337,515	-	226,337,515
LONG-TERM LIABILITIES:				
Arbitrage rebate obligation (Note 21)		-	-	-
Long-term obligations (Note 12):				
Compensated absences		731,835	-	731,835
Debentures payable		1,349,333,603	-	1,349,333,603
Capitalized bond premium		54,296,047	-	54,296,047
TOTAL LONG-TERM LIABILITIES		1,404,361,485	-	1,404,361,485
TOTAL LIABILITIES	$	1,630,699,000	-	1,630,699,000
NET ASSETS:				
Invested in capital assets, net of any related debt and unspent debt proceeds	$	5,756,153,765	-	5,756,153,765
Restricted for:				
Loans		-	18,883,637	18,883,637
Specific purposes		604,139,454	-	604,139,454
TOTAL NET ASSETS	$	6,360,293,219	18,883,637	6,379,176,856

YEAR ENDED JUNE 30, 2006

		Governmental Activities	Business-type Activities (State Infrastructure Bank	Total
PROGRAM EXPENSES:				
Public works - roads	$	505,448,532	-	505,448,532
Depreciation and amortization		514,838,292	-	514,838,292
Interest		78,094,091	-	78,094,091
TOTAL PROGRAM EXPENSES		1,098,380,915	-	1,098,380,915
PROGRAM REVENUES:				
Charges for services		14,552,417	-	14,552,417
Operating grants		19,247,338	-	19,247,338
Capital grants		346,858,920	-	346,858,920
TOTAL PROGRAM REVENUES		380,658,675	-	380,658,675
NET PROGRAM (EXPENSE) REVENUE		(717,722,240)	-	(717,722,240)
GENERAL REVENUES:				
User and fuel taxes		412,271,395	-	412,271,395
Interest income		27,191,910	567,784	27,759,694
Gain on disposal of assets		428,050	-	428,050
TOTAL GENERAL REVENUES (EXPENSES)		439,891,355	567,784	440,459,139
TRANSFERS:				
Transfers to other state agencies and local governments, net (Note 14)		(8,176,400)	-	(8,176,400)
TOTAL TRANSFERS		(8,176,400)	-	(8,176,400)
NET GENERAL REVENUES AND TRANSFERS		431,714,955	567,784	432,282,739
CHANGE IN NET ASSETS/OPERATING INCOME		(286,007,285)	567,784	(285,439,501)
NET ASSETS, BEGINNING OF FISCAL YEAR		6,615,093,717	18,315,853	6,633,409,570
Restatement (Note 22)		31,206,787	-	31,206,787
NET ASSETS, BEGINNING OF FISCAL YEAR		6,646,300,504	18,315,853	6,664,616,357
NET ASSETS, END OF FISCAL YEAR	$	6,360,293,219	18,883,637	6,379,176,856

See Notes to Financial Statements.

AS OF JUNE 30, 2006

	Major Funds							
	State Road Fund	Bond Project Fund (2004A GRIP)	Local Government Road Fund	Debt Service (2001 CHAT)	Debt Service (2004A GRIP)	Debt Service (2004B/C GRIP)	Other Governmental Funds	Total Governmental Funds
ASSETS:								
Cash and cash equivalents (Note 2).								
Unrestricted	$ 66,393,067	90	20,723,524	796,206	-	-	63,360,819	151,273,706
Restricted	36,299,373	415,396,026	-	-	-	-	-	451,695,399
Receivables	-	-	-	-	-	-	-	-
Taxes receivable	44,365,127	-	3,453,438	1,537	-	-	688,640	48,508,742
Accounts Receivable, net (Note 3)	2,066,226	198,377	-	-	-	-	739	2,265,342
Severance Tax Bond Proceeds Receivable (Note 4)	55,475,345	-	-	-	-	-	-	55,475,345
Interest Receivable	730,716	1,210,240	187,241	35,955	-	-	342,581	2,506,733
Notes and Loans Receivable (Note 5)	27,672	-	-	-		-	-	27,672
Due From:								
Due from Other Funds (Note 7)	107,491,437	-	-	-	-	-	23,780,346	131,271,783
U.S. Department of Transportation, net (Note 6)	23,183,713	-	-	-	-	-	1,916,830	25,100,543
Inventories (Note 8)	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid Expense - NM44 Warranty	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,541	-	-	-	-	-	-	4,648,541
TOTAL ASSETS	$ 398,833,880	416,804,733	24,364,203	833,698	-	-	90,089,955	930,926,469
LIABILITIES AND FUND BALANCES:								
LIABILITIES:								
Accounts payable	$ 38,380,909	11,398,650	967,681	-	-	-	2,462,178	53,209,418
Due to other funds (Note 7)	100,501,750	16,062,233	1,826,039	-	-	-	12,881,761	131,271,783
Deferred revenue	20,892,250	-	-	-	-	-	797,254	21,689,504
Due to others	55,475,345	-	-	-	-	-	-	55,475,345
Other accrued expenses	7,972,900	-	-	-	-	-	93,215	8,066,115
Other payables	-	105,019	-	-	-	-	-	105,019
TOTAL LIABILITIES	223,223,154	27,565,902	2,793,720	-		-	16,234,408	269,817,184
FUND BALANCES:								
Reserved for:								
Inventories	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid expenses	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,366	-	-	-	-	-	-	4,648,366
Unreserved-undesignated (Note 21)		-	-	-	-	-	-	-
Unreserved, reported in non-major:								
Special revenue funds	112,809,697	389,238,831	21,570,483	-	-	-	57,911,787	581,530,798
Capital projects funds	-	-	-	-	-	-	13,824,705	13,824,705
Debt service funds	-	-	-	833,698	-	-	2,119,055	2,952,753
TOTAL FUND BALANCES	175,610,726	389,238,831	21,570,483	833,698	-	-	73,855,547	661,109,285
TOTAL LIABILITIES AND FUND BALANCES	$ 398,833,880	416,804,733	24,364,203	833,698	-	-	90,089,955	930,926,469

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)			$ 661,109,285
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
The cost of capital assets is:	$	15,741,216,331	
Accumulated depreciation is:		(8,560,433,963)	
Total capital assets			7,180,782,368
Long-term debt not recorded as liabilities in the governmental funds, but recorded as long-term liabilities in the Statement of Net Assets:			
Debentures payable			(1,426,343,958)
Compensated absences			(5,831,835)
Amortization of deferred costs on refunding not recorded by the government funds			1,715,355
Accrued of interest on long-term obligations not recorded by the governmental funds until paid.			(3,120,649)
Capitalized issuance costs not recorded in the governmental funds as an asset, net of amortization.			10,555,165
Capitalized bond premiums not recorded in the governmental funds as a liability, net of amortization.			(58,572,512)
Net assets of governmental activities (Statement of Net Assets)			$ 6,360,293,219

YEAR ENDED JUNE 30, 2006

	State Road Fund	Bond Project Fund (2004A CRIP)	Local Government Road Fund	Debt Service (2001 CHAT)	Debt Service (2004A GRIP)	Debt Service (2004B/C GRIP)	Other Governmental Funds	Total Governmental Funds
REVENUES:								
User and fuel taxes	$ 386,475,663		22,084,495	-	-	-	3,711,237	412,271,395
U.S. Department of Transportation	282,673,825	-	-	-	-	-	12,495,295	295,169,120
U.S. Department of Energy	27,843,754	-	-	-	-	-	-	27,843,754
N.M. Department of Human Services	-	-	-		-	-	1,753,264	1,753,264
Miscellaneous	12,782,578		-	-	-	-	4,740	12,787,318
DWI Interlock Device	-	-	-	-	-	-	1,185,849	1,185,849
Interest Revenue	3,479,664	19,738,185	817,790	410,079	-	-	2,746,192	27,191,910
TOTAL REVENUES	713,255,484	19,738,185	22,902,285	410,079	-	-	21,896,577	778,202,610
EXPENDITURES:								
Current:								
Operating costs	9,376,750	-	-	-	-	-	90,580	9,467,330
Personal services	90,872,933	-	-	-	-	-	746,303	91,619,236
Out-of-state travel	293,819	-	-	-	-	-	40,042	333,861
Grants and services	4,374,796	-	20,732,431	-	-		15,979,062	41,086,289
Travel	18,818,676		-	-	-	-	41,423	18,860,099
Maintenance and repairs	8,528,812	-	-	-	-	-	51,047	8,579,859
Supplies	30,978,829	-	-	-	-		46,980	31,025,809
Contractual services	253,971,643	4,576,967	-	-	-	-	3,255,984	261,804,594
Other costs	10,031,914	-	-	-	-	-	16,277	10,048,191
Employee benefits	42,180,064	-	-		-	-	257,149	42,437,213
Capital outlay	154,235,754	236,149,773	-	-	-	-	5,684,170	376,069,697
Debt service:								
Interest and other charges	3,202,984	-	-	7,088,398	36,216,759	16,309,336	15,281,093	78,098,570
Principal	-	-	-	14,875,000	-	27,940,000	38,315,000	81,130,000
TOTAL EXPENDITURES	606,866,974	240,726,740	20,732,431	21,963,398	36,216,759	44,249,336	79,805,110	1,050,560,748
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	106,388,510	(220,988,555)	2,169,854	(21,553,319)	(36,216,759)	(44,249,336)	(57,908,533)	(272,358,138)
OTHER FINANCING SOURCES (USES):						-		
Proceeds from long-term debt, net	-	-	-	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-	-	-	-
Severance Tax Bond revenue	22,660,197	-	-	-	-	-	-	22,660,197
State General Fund revenue	19,247,338	-	-	-	-	-	-	19,247,338
Other use	-	-	-	-	-	-	-	
Transfers in	2,648,475	-	-	21,963,398	37,856,142	44,249,336	53,545,772	160,263,123
Transfers out	(170,258,516)	(2,776,412)	-	-	-	-	12,771,808	(160,263,123)
TOTAL OTHER FINANCING SOURCES (USES)	(125,702,506)	(2,776,412)	-	21,963,398	37,856,142	44,249,336	66,317,577	41,907,535
SPECIAL ITEM:								
Proceeds from Sale of Capital Assets	861,112	-	-	-	-	-	-	861,112
NET CHANGES IN FUND BALANCES	(18,452,884)	(223,764,967)	2,169,854	410,079	1,639,383	-	8,409,044	(229,589,491)
FUND BALANCES, June 30, 2005	158,666,205	619,332,742	17,680,376	423,619	(1,639,383)		65,028,409	859,491,968
RESTATEMENT (Note 22)	35,397,405	(6,328,944)	1,720,253	-	-	-	418,094	31,206,808
FUND BALANCES, June 30, 2005, Restated	194,063,610	613,003,798	19,400,629	423,619	(1,639,383)	-	65,446,503	890,698,776
FUND BALANCES, June 30, 2006	$ 175,610,726	389,238,831	21,570,483	833,698	-	-	73,855,547	661,109,285

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)		$	(229,589,491)
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 increase in the liabilities for the fiscal year was:			(77,786)
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 were:			
Capital outlay	$ 376,069,697		
Depreciation expense	(514,838,292)		
Sale of fixed asset, net book value	(433,062)		
Excess of depreciation expense over capital outlay			(139,201,657)
Repayment of debentures recorded as expenditures in the governmental funds, recorded as a reduction in long-term liabilities in the Statement of Net Assets.			81,130,000
Deferred amount of debt recorded as a reduction of long-term liabilities in the Statement of Activities			(833,960)
Bond premiums recorded in the governmental funds as an other financing source, recorded as a liability in the Statement of Net Assets, net of amortization of $58,572,512, recorded as a reduction of interest expense in the Statement of Activities.			4,276,465
Bond issuance costs recorded in the governmental funds as other costs, recorded as an asset in the Statement of Net Assets, net of amortization of $10,555,165, recorded as an expense in the Statement of Activities.			(1,715,335)
Net change in accrual of long-term debt interest expense not recorded in the governmental funds until paid.			4,479
Change in net assets of governmental activities (Statement of Activities)		$	(286,007,285)

YEAR ENDED JUNE 30, 2006

		State Infrastructure Bank
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2):	$	-
Unrestricted		10,765,589
Restricted		
Receivables:		-
Tax receivable		-
Accounts receivable, net (Note 3)		-
Severance tax bond proceeds receivable (Note 4)		75,801
Interest receivable		8,042,247
Notes and loans receivable (Note 5)		-
U.S. Department of Transportation, net (Note 6)		-
Capitalized issuance costs		-
Inventories (Note 8)		-
Prepaid expense - warranty		-
Property held for resale, net		
		18,883,637
TOTAL CURRENT ASSETS		
NON-CURRENT ASSETS:		-
Capitalized issuance costs		-
Prepaid expense - warranty		-
Capital assets, net (Note 9)		
		-
TOTAL NON-CURRENT ASSETS		
	$	18,883,637
TOTAL ASSETS		

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

LIABILITIES		State Infrastructure Bank
CURRENT LIABILITIES:		
Accounts payable and contracts payable	$	-
Due to other state agencies		-
Accrued payroll, taxes and withholdings		-
Accrued interest		-
Deferred revenue		-
Arbitrage rebate obligation (Note 21)		-
Other liabilities		-
Due to others - Severance Taxes		-
Current portion of long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-
TOTAL CURRENT LIABILITIES		-
LONG-TERM LIABILITIES:		
Arbitrage rebate obligation (Note 21)		-
Long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-
TOTAL LONG-TERM LIABILITIES		-
TOTAL LIABILITIES	$	-
NET ASSETS:		
Invested in capital assets, net of any related debt and unspent debt proceeds	$	-
Restricted for:		
Loans		18,883,637
Specific purposes		-
TOTAL NET ASSETS	$	18,883,637

YEAR ENDED JUNE 30, 2006

		State Infrastructure Bank
PROGRAM EXPENSES:		
Public works - roads	$	-
Depreciation and amortization		-
Interest		-
TOTAL PROGRAM EXPENSES		-
PROGRAM REVENUES:		
Charges for services		-
Operating grants		-
Capital grants		-
TOTAL PROGRAM REVENUES		-
NET PROGRAM (EXPENSE) REVENUE		-
GENERAL REVENUES:		
User and fuel taxes		-
Interest income		567,784
Gain on disposal of assets		-
TOTAL GENERAL REVENUES (EXPENSES)		567,784
TRANSFERS:		
Transfers to other state agencies and local governments, net (Note 14)		-
TOTAL TRANSFERS		-
NET GENERAL REVENUES AND TRANSFERS		567,784
CHANGE IN NET ASSETS/OPERATING INCOME		567,784
NET ASSETS, BEGINNING OF FISCAL YEAR		18,315,853
Restatement (Note 22)		-
NET ASSETS, BEGINNING OF FISCAL YEAR		18,315,853
NET ASSETS, END OF FISCAL YEAR	$	18,883,637

YEAR ENDED JUNE 30, 2006

		State Infrastructure Bank
Cash flows provided from operating activities:		
Interest income received	$	524,368
Cash flows used from financing activities:		
Loans issued		(7,401,160)
Loans repaid		2,331,100
Net decrease in cash and cash equivalents		(4,545,692)
Cash and cash equivalents at June 30, 2005		15,311,281
Cash and cash equivalents at June 20, 2006	$	10,765,589
Reconciliation of operating income to net cash provided from operating activities:		
Operating income	$	567,784
Adjustment to reconcile operating income to net cash by operating activities:		
Increase in interest receivables		(43,416)
Cash flows provided by operating activities	$	524,368

NATURE OF ORGANIZATION

The New Mexico Department of Transportation (Department), formerly known as the New Mexico State Highway and Transportation Department, within the State of New Mexico is responsible for planning, organizing and directing a comprehensive transportation network. The Department was created by the Constitution of New Mexico, Article V, Section 14; and Sections 67-3-1 through 67-3-70, New Mexico Statutes Annotated, 1978 Compilation. The Highway & Transportation Department Reorganization Bill (House Bill 210) created the Department as of July 1, 1987. Under this reorganization act, portions of the Transportation Department were merged into the Department to create the Department's Aviation and Transportation Divisions. On April 4, 2003, the Governor signed a bill changing the Department's name to the New Mexico Department of Transportation.

The governing body of the Department is a six person State Highway Commission. Commissioners are appointed by the Governor, with the advice and consent of the Senate, and each serves for staggered six-year terms.

Financial Reporting Entity

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Even though the Governor appoints the Commission, the Commission has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. Effective July 1, 2003, GASB 39, ***Determining Whether Certain Organizations are Component Units***, expands the criteria of component units. GASB 39 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2006.

The Department, the New Mexico Finance Authority (NMFA) and the Federal Highway Administration (FHWA) established a State Infrastructure Bank (SIB) on September 30, 1997. The SIB is a revolving loan program accounted for as a business-type operation - enterprise fund and is administered by the Department to finance highway projects. The initial capitalization for the SIB came from the Highway Department's allotment of federal funds. The Department matched the federal funds based on the required matching percentage from state funds.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB has issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments,* and Statement No. 38, *Certain Financial Statement Note Disclosures.* These Statements established the financial reporting requirements for state and local governments throughout the United States. The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. The Department has prepared required supplementary information entitled, *Management's Discussion and Analysis*, which precedes the basic financial statements.

♦ *Government-Wide and Fund Financial Statements*

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all of the non-fiduciary activities of the Department. The effect of material interfund activity has been removed from these government-wide statements. Governmental activities, primarily the construction and maintenance of the State's road system, which normally is supported by taxes and intergovernmental revenues, are reported separately from the business-type activities of the SIB, which to a significant extent acts as a business, loaning funds to other entities and charging interest on the loans. Operating income for the SIB is interest income. All other income, if any, would be non-operating income to the SIB.

♦ *Basis of Presentation*

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department function of building and maintaining the State's road system (public works). Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a department. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements for public works. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Department does not allocate general government expenses to other functions except for public works. When both restricted and unrestricted resources are available for use, the Department's policy is to first use restricted resources, then unrestricted resources.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - continued***

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, it is generally the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental funds are reported as major funds in the accompanying financial statements if they meet *both* of the following criteria:

- *Ten percent criterion.* An individual governmental fund reports at least ten percent of *any* of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.

- *Five percent criterion.* An individual governmental fund reports at least five percent of the total for both governmental and enterprise funds of any of the items for which it met the ten percent criterion.

The Department's major governmental funds are the following:

State Road Fund-CAS Fund No. 201 - The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Section 67-3-59 NMSA establishes that this is a non-reverting fund. This is a special revenue fund.

Bonds Project Fund-2004A GRIP - The bonds project fund was created when the $700,000,000 New Mexico State Transportation Senior Lien Revenue Bonds Series 2004A were issued through the New Mexico Finance Authority in May 2004. The funds from the sale of the Debentures were required to be deposited in a special account with the NMFA. Unspent proceeds are on deposit with the NMFA and recorded as due from other state agencies. The funds are used to finance transportation projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. The fund does not receive state general fund appropriations that are subject to reversion. This is a special revenue fund.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

Debt Service Fund - 2004A GRIP - This fund was created when the $700,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bond Series 2004A were issued through the New Mexico Finance Authority in 2004. The fund does not receive state general fund appropriations that are subject to reversion.

Debt Service Fund - 2004B and C GRIP - This fund was created when the $237,950,000 and $200,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bonds Series 2004B and Series 2004C were issued through the New Mexico Finance Authority in May 2004. The fund does not receive state general fund appropriations that are subject to reversion.

Local Government Road Fund - The local government road fund was created by Section 67-3-28.2, NMSA 1978. This fund is used to account for monies received for (1) cooperative agreements program for construction and improvement of public highways and streets, and public school parking lots; (2) a municipal arterial program for construction for reconstruction of highways and streets not on the state highway systems; (3) a school bus route program for maintaining, repairing, improving and paving school bus routes, and public school parking lots; and (4) a county arterial program for construction, reconstruction, improvement and maintenance of county roads. Funding is received from state excise taxes. The fund does not receive state general fund appropriations that are subject to reversion. This is a special revenue fund.

Debt Service - 2001 CHAT Bonds - Created when the $198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A were issued in March 2001.

♦ *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*

Business Type - Proprietary Fund - State Infrastructure Bank (SIB) Financial Statements - The financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

A proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The SIB has elected to not apply FASB pronouncements issued after the applicable date.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days after year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested compensated absences are recorded as an expenditure when utilized. The amount of accumulated compensated absences unpaid at June 30, 2006, has been reported only in the government-wide financial statements.

- Interest and principal payments on general long-term obligations is recognized as expenditures when paid.

- Executory purchase orders and contracts are recorded as a reservation of fund balance.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

- ***Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued***

The financial activities of the Department are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The measurement focus is on the flow of expendable financial resources, rather than on net income determination. The following are the governmental fund types used:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Road Fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Resources are generated primarily from user and fuel taxes and federal grants. Expenditures are incurred to build and improve the transportation system within the State of New Mexico. These funds do not receive state general fund appropriations that are subject to reversion.

Federal Planning and Development Fund -This fund is authorized by the Commission to account for the planning and administration of federal grant monies and state matching funds for mass transportation and railroad improvements. The fund does not receive state general fund appropriations that are subject to reversion.

Traffic Safety Fund (CAS Fund #208). This fund is authorized by the Commission to account for federal grant monies and state matching monies received for various traffic safety programs.

State Aviation Fund (CAS Fund #205). The State Aviation Fund was created by Section 64-1-15, NMSA 1978. This fund is used to account for planning, construction and maintenance of a system of airports, navigation aids and related facilities serving New Mexico. Financing is provided from all unrefunded taxes collected on the sale of motor fuel sold for use in aircraft.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

- ***Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued***

Special Revenue Funds - continued

Motorcycle Training Fund (CAS Fund #206). The motorcycle training fund was created by Section 66-10-10, NMSA 1978. This fund is used to account for the operation of a motorcycle safety training program. Financing is provided from motorcycle registration fees and student training fees. All money in the motorcycle training fund in excess of amounts budgeted revert to the State Road Fund.

Driver Improvement Program Fund. The driver improvement program fund was created by Executive Order 87-20. This fund is used to account for the operation of a driver improvement program. Financing is provided from fees collected for drivers' manuals and admissions to driver training courses.

DWI Prevention and Education Fund (CAS Fund #207). The DWI prevention and education fund was created by Section 66-5-35, NMSA 1978. This fund is used to account for the operation of a DWI (Driving While Intoxicated) prevention and education program for elementary and secondary school students. Financing is provided from limited license and permit fees.

Bond Project Fund (1993 Bonds) (CAS Fund #394). The bond project fund was created due to the issuance of the December 1993 $50,000,000 State of New Mexico Highway Debentures. The funds from the sale of all of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations held by the State Treasurer with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004). The bond project fund was created due to the issuance of the December 1996 $100,000,000 State of New Mexico Highway Debentures and the $100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B issued in October 1998. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*

Special Revenue Funds - continued

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004) - continued.
year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (1998 & 1999 CHAT) (CAS Fund #546). The bond project fund was created due to the issuance of the October 1998 $105,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1998A and the $100,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1999 issued in November 1999. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2000 CHAT) (CAS Fund #345). The bond project fund was created due to the issuance of the May 2000 $201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2001 CHAT) (CAS Fund #006). The bond project fund was created due to the issuance of the March 2001 $198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

- ***Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued***

Special Revenue Funds - continued

Bond Project Fund (2001 CHAT) (CAS Fund #006) - continued.
funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002A CHAT) (CAS Fund #368). The bond project fund was created due to the issuance of the January 2002 $95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002C HIF) (CAS Fund #361). The bond project fund was created due to the issuance of the May 2002 $67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Highway Bonds Series 2002C. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002D CHAT) (CAS Fund #115). The bond project fund was created due to the issuance of the December 2002 $16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service requirements are met through the monthly transfer of vehicle and gasoline tax revenues from the State Road Fund. The Department may transfer interest earned on the other bond issues to their respective debt service funds. These funds do not receive state general fund appropriations that are subject to reversion.

Debt Service - 1993 Bonds (CAS Fund #261). Created when the $50,000,000 State of New Mexico Highway Debentures Series were issued in 1993.

Debt Service - WIPP Bonds (CAS Fund #211, 677 and 972). Created when the $100,000,000 New Mexico State Highway Commission Adjustable Tender Subordinate Lien Tax Revenue Highway Bonds were issued in December 1996 and subsequently refunded in January 2002, creating the 2002 WIPP Bonds and the $100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bond Series 1998B, issued in October 1998.

Debt Service - 1998 CHAT Bonds (CAS Fund #548). Created when the $105,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1998A were issued in October 1998.

Debt Service - 1998 NMFA Loan. Created when the $100,230,000 loan agreement with the New Mexico Finance Authority was signed in October 1998.

Debt Service - 1999 CHAT Bonds (CAS Fund #434). Created when the $100,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1999 were issued in November 1999.

Debt Service - 2000 CHAT Bonds (CAS Fund #432). Created when the $201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A were issued in May 2001.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued***

Debt Service Funds - continued

Debt Service - 2001 NMFA Loan. Created when the $18,535,000 loan agreement with the New Mexico Finance Authority was signed in March 2001.

Debt Service - 2002A CHAT Bonds (CAS Fund #547). Created when the $95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A were issued in January 2002.

Debt Service - 2002B WIPP Bonds (CAS Fund #750). Created when the $79,920,000 New Mexico State Highway Commission Lien Tax Revenue Bonds Series 2002B were issued in January 2002.

Debt Service - 2002C HIF Bonds (CAS Fund #363). Created when the $67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Bonds Series 2002C were issued in May 2002.

Debt Service - 2002D CHAT Bonds (CAS Fund #187). Created when the $16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D were issued in December 2002.

Capital Projects Fund - The Capital Projects Fund is used to account for the purchase or construction of facilities used in the operation of the Department. As it is a non-major fund, it is shown in the accompanying financial statements. Appropriations are received on a reimbursement basis as expenditures occur; therefore, only budgetary reversions are made when applicable.

All governmental funds are accounted for using the modified accrual basis of accounting. The funds' revenues are recognized in the period in which they become susceptible to accrual (i.e., when they are both measurable and available to pay liabilities in the current period). "Available" is defined as collectible within the current period or soon enough thereafter within 60 days after year-end to be used to pay liabilities of the current period. Intergovernmental revenues, including Federal allotments and grants, are recorded in accordance with their legal or contractual requirements if collected in the current period or if collectibility is assured subsequent to year-

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

- ***Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued***

  end. Grant revenues are collected in advance of the period intended to finance expenditures. If the eligibility requirements are not met, they are recorded as deferred revenues. Interest income is recorded when earned. Bond proceeds are recognized at the time the bonds are sold. Principal and interest payments are recorded in the debt service fund when these disbursements are made or when resources have been provided for debt service payments due early in a subsequent fiscal year. All other revenues are not susceptible to accrual.

- ***Budgets and Budgetary Accounting***

  The state legislature makes annual appropriations to the Department. Legal compliance is monitored through the establishment of an annual budget for the Special Revenue Fund type and multi-year budgets for Severance Tax multi-year capital projects, General Fund multi-year capital projects, and the capital projects funds using the modified accrual budget basis of accounting and a financial control system which permits a budget-to-actual expenditure comparison. The Debt Service Fund expenditures for principal and interest and the State Infrastructure Bank expenditures for loans funded are included in the Road Betterments Division budget of the State Road Fund.

  Expenditures may not legally exceed appropriations for each division's budget at the expenditure classification level.

  Amendments to the budget require approval by the budget division of the Department of Finance and Administration (DFA). Unencumbered annual budget appropriations lapse at year-end. Appropriations of the proceeds of severance tax bonds are subject to the limitations contained in the law that authorized the appropriation.

- ***Interfund and Interagency Transactions***

Transfers which, because of budgetary or legal restrictions, must be expended by funds other than the fund initially receiving the revenue, are recorded as operating transfers in (out) under the other financing sources (uses) category (Notes 10 and 14) in the governmental fund financial statements.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Restricted Cash and Cash Equivalents*

The funds deposited in the debt service funds are restricted to pay future principal and interest payments due under the $105,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (CHAT Bonds); the $100,000,000 Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (WIPP Bonds); the $100,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (CHAT Bonds); the $201,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (CHAT Bonds); the $198,800,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (CHAT Bonds); the $95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (CHAT Bonds); the $79,920,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002B (WIPP Bonds); the $67,750,000 Highway Infrastructure Fund Revenue Highway Bonds, Series 2002C (HIF Bonds); and the $16,000,000 Senior Subordinate Tax Revenue Highway Bonds, Series 2002D (CHAT Bonds). The remaining balance of the proceeds from the sale of the debentures, bonds and the NMFA loan are also classified as restricted cash because of the limited use of these funds. Proceeds of the various bond issues are also invested through the State Treasurer's Office in securities repurchase agreements with financial institutions and a money market mutual fund that invests in U.S. Treasury securities. Cash received from the Department of Energy (for the WIPP Project fund) in advance of incurring the eligible expenditures is also reflected as restricted cash because the cash can only be used on specified road projects. Cash held in the State Infrastructure Bank is restricted for use in funding loans (Note 2).

♦ *Taxes Receivable*

Taxes receivable represent the amounts due from the New Mexico Taxation and Revenue Department for the Department's June 30 fiscal year user and fuel taxes that are received by the Department after year-end. Accordingly, no allowance for uncollectible amounts is necessary.

♦ *Accounts Receivable*

Accounts receivable consists of amounts due from various entities: individuals and other state and local agencies located within the State of New Mexico for the sale of maps, brochures and other materials; federal excise taxes; and for other services performed by the Department. The Department provides an allowance for uncollectible accounts. The allowance is based on estimated collectible balances using an analysis of an aging of outstanding accounts and historical collection experience. The Department does not require collateral on these accounts receivable (Note 3).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Severance Tax Bonds Proceeds Receivable*

The State of New Mexico Legislature has authorized the State Board of Finance to issue and sell revenue bonds that are to be retired using future taxes levied against the extractive industries in the state. The proceeds from bonds sold are appropriated to the Department to be used for specific programs and are recorded as revenues by the Department. Expenditures incurred by the Department for such programs are reimbursable from the State Board of Finance. The severance tax bonds proceeds receivable represents the amounts due and available from the State Board of Finance as of year-end (Note 4).

♦ *Notes and Loans Receivable*

Notes receivable represent:

- Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds (90%) for the purchase of vehicles by various nonprofit van pooling organizations.
- The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- Notes issued to individuals displaced by purchases of right of way properties. The funds loaned to such individuals are provided in part by FHWA funds per FHWA guidelines.

Loans receivable represent:

- Loans to other governmental entities made by the State Infrastructure Bank. Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All loans are to governmental entities and secured by certain pledged revenues. The loans are being repaid in accordance with their loan agreements. Management's evaluation of the loan portfolio has determined that no allowance for uncollectible loans is required at June 30, 2006. There are no loans past due for more than 90 days as of the end of the fiscal year which require placement on non-accrual status (Note 5).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Due From the U.S. Department of Transportation***
Due from the U.S. Department of Transportation represents amounts billed and unbilled in accordance with the various grant agreements. The "billed" portion represents contract expenditures incurred and billed by the Department. The "unbilled" portion represents expenditures included in accounts payable that will be billed when paid by the Department. The "excess project costs" represents costs actually incurred on a project in excess of approved amounts. The Department provides for an allowance for uncollectible accounts in excess of project costs classification. The allowance is based on an analysis of amounts that are reasonably assured of collection (Note 6).

♦ ***Due From/To Other Funds***
Due from/to other funds represent amounts due from and to other funds within the Department (Note 7) and are included in the governmental fund financial statements. Inter-fund transactions are eliminated in the GAAP-basis governmental-wide financial statements.

♦ ***Inventory***
Inventory is valued at cost using the first-in, first-out method. Special Revenue Fund inventory consists of materials used in the Department's operations.

The inventory costs are recorded as expenditures when consumed rather than when purchased. Reported inventories are equally offset by the fund balance reserve, which indicates that it does not constitute "available spendable resources" (Note 8) even though they are a component of current assets.

♦ ***Prepaid Expense - Warranty***
The warranty represents the no-fault portion of $32,490,080 being amortized over 20 years that will meet performance criteria. The remaining $13,148,286 of the warranty that represents the no-fault warranty that the structures will meet performance criteria is being amortized over 11 ½ years.

♦ ***Property Held for Resale***
Property held for resale represents excess land acquired through condemnation and is recorded at its estimated fair value. The Department's management estimated the fair value based upon recent sales of similar type assets.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Capital Assets*

Capital assets, which include property, plant, equipment, software in the equipment category, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, streets, tunnels and similar infrastructure items), are reported in the governmental activities columns in the government-wide financial statements. The Department has no internally developed software that requires capitalization. As a result of House Bill 1074, effective date June 17, 2005, the State's capitalization policy threshold was changed from $1,000 to $5,000, requiring agencies to capitalize acquisitions greater than $5,000. Assets purchased prior to June 17, 2005 were not removed and will continue to be depreciated. Purchased and constructed capital assets are valued at historical or estimated historical cost. The Department has not capitalized any construction period interest expense. Donated capital assets are recorded at their estimated fair value at the date of donation.

- The Department records as capital assets the specific roads, tunnels and other infrastructure it owns or over which it has primary responsibility for maintenance. According to GASB, if the Department has the primary responsibility for the asset's maintenance, then the capital asset would be recorded on its books.
- An estimated historical cost of the entire infrastructure on the Department's government-wide financial statements was determined as of June 2001. The Department calculated the replacement cost as of June 30, 2001 for its entire infrastructure and then deflated the cost by use of a construction price level index maintained by the Federal Highway Administration. Accumulated depreciation at June 30, 2001 was calculated based on the estimated historical cost of the infrastructure, estimated use of the assets and using a 25 to 30-year life of the infrastructure. Current year activity is shown in Note 9 to the financial statements.
- The Department follows the depreciation method to record infrastructure assets. This method requires the Department to allocate the cost of infrastructure assets over their useful lives as depreciation expense. Another allowable methodology is to use the modified approach to record infrastructure. Under this process, the Department does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. If this method was used, it would require the Department to: 1) commit to maintaining and preserving the assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. The Department elected to use the depreciation method as it determined it could not meet

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Capital Assets – continued*

- the condition to maintain the infrastructure at a predetermined condition level due to an anticipated lack of future funding for maintenance.

- The Department records its other capital assets (buildings and machinery and equipment) at historical cost and depreciates the assets over their estimated useful lives. Capital assets acquired in the current year in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

  Capital assets of the Department are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and right-of-way land. Generally, estimated useful lives are as follows:

Machinery and Equipment	7 - 14 years
Buildings and Other Improvements	40 years
Infrastructure	25 - 30 years

♦ *Deferred Revenue*

Deferred revenue occurs when the Department receives funds before the corresponding expense or expenditure has been incurred, or all of the eligibility requirements have been met. The Department has received funds in advance of work done from the Department of Energy (DOE) for road projects and other costs relating to the Waste Isolation Pilot Plant (WIPP). The Department has received pass-through federal funds in advance of work done from the New Mexico Department of Human Services for the temporary assistance of needy families. Revenue is recognized when eligible expenditures are incurred for these projects and programs and all eligibility requirements are met.

♦ *Compensated Absences*

The Department accounts for the accumulated vacation and sick leave on the accrual basis in accordance with GASB 16. Accrued vacation up to 240 hours is recorded in the Statement of Net Assets at 100% of the employee's hourly wage. In addition, accrued sick leave over 600 up to 720 hours less the amount classified as current is recorded in the Statement of Net Assets at 50% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA). Employees exempt from coverage by FLSA earn one hour of compensatory time for each overtime hour. The accrual for

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Compensated Absences - continued*

compensated absences is calculated at pay rates in effect at June 30, 2006, and include direct and incremental salary related payments, such as the employees' share of social security taxes.

♦ *Long-Term Obligations*

Premiums, Discounts and Issuance Costs - In the government-wide financial statements, long-term debt and other long-term obligations are presented in the columns for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized straight line over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and also amortized straight line over the term of the related debt.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other expenditures.

Arbitrage Rebate Liability - Any arbitrage rebate is recorded as a liability when it is determined to be owed to the Internal Revenue Service.

♦ *Net Assets*

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

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

Restricted Assets - are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory or granting agency) limitation on their use. When there is an option, the Department spends restricted resources first.

Unrestricted Assets - are all other net assets that do not meet the definition of "restricted assets" or "investments in capital assets".

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Encumbrances***

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end with the exception of the Capital Projects Fund. Encumbrances outstanding in this fund at year-end are reported as reservations of fund balance on the balance sheets (in the fund financial statement) and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

It is necessary to include the budgetary basis consistent with the Department's legally adopted budget as presented in the required supplementary information. Unused and excess encumbrances are adjusted in the year it is determined the funds will not be spent.

♦ ***Reservations***

Reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved for Encumbrances - This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Department but not completed as of the close of the fiscal year.

Reserved for Inventory - This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department expects to use the resources within the next budgetary period.

♦ ***Designated Fund Balance***

The Department established a designation for projects to be funded by the Capital Projects Fund that have not been started in the governmental fund financial statements.

♦ ***Use of Estimates***

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Eliminations***

Total columns in the governmental fund financial statements are captioned "Total (Governmental Funds)" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operation or changes in financial position of the Department as a whole in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation in the governmental fund financial statements. Due from/to other funds and interfund transfers have been eliminated in the government-wide financial statements.

2. *CASH AND CASH EQUIVALENTS*

Cash funds, other than petty cash, are deposited by the Department into its accounts with the State Treasurer, which are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Money of the Department may be deposited with the State Treasurer for a short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico, or any political subdivision of the State and other investments allowed by state law. Petty cash funds are deposited with various financial institutions and are fully insured. Some of the cash held by the trustee for the NMFA loan proceeds is also invested in a money market mutual fund that invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2006, are as follows:

	CAS Account Number		Amount
Unrestricted:			
Road Fund - General	201	$	66,393,157
Local Government Fund	203		20,723,524
Aviation Fund	205		625,844
Motorcycle Training Fund	206		78,661
DWI Prevention Fund	207		573,762
Traffic Safety	208		3,284,326
Driver Improvement Program Fund	N/A		1,475
Bond Project Fund			90
		$	91,680,839

2. *CASH AND CASH EQUIVALENTS - continued*

	CAS Account Number	Amount
Restricted:		
Road Fund (relates to WIPP bond projects and various other road projects)	431	36,299,193
Bond Project Fund (1993 Bonds)	394	1,460,095
Bond Project Fund (1999 CHAT Bonds)	430	219,157
Bond Project Fund (2000 CHAT Bonds)	345	4,527
Bond Project Fund (2001 CHAT Bonds)	006	9,343,403
Bond Project Fund (2002A CHAT Bonds)	368	139,960
Bond Project Fund (2002C HIF Bonds)	361	1,164,997
Bond Project Fund (2002D CHAT Bonds)	115	670,506
Bond Project Fund (2004A GRIP Bonds)	N/A	415,396,116
Bond Project Fund (2004 B/C GRIP Bonds)	N/A	43,782,628
Debt Service Fund (1998 CHAT Bonds)	548	143,308
Debt Service Fund (1999 CHAT Bonds)	434	401,572
Debt Service Fund (2000 CHAT Bonds)	432	594,534
Debt Service Fund (2001A CHAT Bonds)	007	796,206
Debt Service Fund (2002A CHAT Bonds)	547	333,987
Debt Service Fund (2002B WIPP Bonds)	750	359,201
Debt Service Fund (2002C HIF Bonds)	363	81,027
Debt Service Fund (2002D CHAT Bonds)	187	15,237
Debt Service Fund (WIPP Bonds)	N/A	82,612
State Infrastructure Bank	893	10,765,589
		$ 522,053,855

State law requires that repurchase agreements be secured by collateral with a market value greater than 102% of the value of the agreement. The securities are held by a third party in the Department's name. The fair value of the repurchase agreement approximates the cost at June 30, 2006.

GASB 31, which requires the Department to record investments with a maturity greater than one year at the time of their purchase at fair value, does not have any effect on the Department.

3. *ACCOUNTS RECEIVABLE*

The aging of accounts receivable as of June 30, 2006, is as follows:

Number of Days Outstanding		
0 - 30	$	1,845,170
31 - 60		4,926
61 - 120		496
Beyond 120		2,237,000
		4,087,592
Allowance for uncollectible accounts		(1,822,250)
	$	2,265,342

The allowance for uncollectible accounts has been established from experience based on the records of the respective activities.

4. *SEVERANCE TAX BOND PROCEEDS RECEIVABLE*

Severance tax bonds proceeds receivable as of June 30, 2006, appropriated to the Department, were held by the State Board of Finance to reimburse expenditures incurred by the Department. The activity of this account is as follows:

Balance, beginning of year	$	44,379,303
Sale and reauthorization of severance tax bonds		19,530,882
Funding from the State Board of Finance		(7,615,903)
Reversion to the State Board of Finance		(818,437)
Balance, end of year	$	55,475,345

The funding for the year ended June 30, 2006 was received under the Laws of 1998, Chapter 118; Laws of 1998, Chapter 7; Laws of 1999, Chapter 2; Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110, for projects completed.

5. *NOTES AND LOANS RECEIVABLE*

Notes receivable as of June 30, 2006 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.	$ 27,672

Loans receivable funded by the SIB consist of the following:

City of Albuquerque, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	$ 641,087
County of Bernalillo, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	7,401,160
	$ 8,042,247

6. *DUE FROM U.S. DEPARTMENT OF TRANSPORTATION*

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2006:

Agency	
Federal Highway Administration	$ 23,183,713
Other USDOT Agencies	1,916,830
Total USDOT	$ 25,100,543

Subsequent to June 30, 2006, the Federal Highway Administration unbilled portion was billed and the amounts were collected by the Department. Management felt that the entire balance outstanding at year end was collectable and, therefore, no allowance was established at June 30, 2006.

7. *DUE FROM AND DUE TO OTHER FUNDS*

The following are short-term amounts (due within one year) owed between funds and are classified as Due From/To Other Funds:

	Due From Other Funds	Due To Other Funds
Special Revenue Funds:		
State Road Fund	$ 107,491,437	(100,501,750)
Local Government Road Fund	-	(1,826,039)
Federal Planning and Development Fund	-	(726,308)
State Aviation Fund	1,340,226	(174,177)
Federal Traffic Safety Fund	3,423,860	(4,149,734)
Driver Improvement Program Fund	289,504	-
DWI Prevention and Education Fund	-	(31,533)
Capital Improvements Projects	13,835,328	-
Bond Project Fund (1993 Bonds)	-	(37,804)
WIPP Debt Service Funds	13,829	-
Bond Project Fund (1998 & 1999 CHAT)	3,088,612	(1,224,580)
Bond Project Fund (2000 CHAT)	1,788,987	(3,650,144)
Bond Project Fund (2001 CHAT)	-	(899,327)
Bond Project Fund (2002A CHAT)	-	(1,988,154)
Bond Project Fund (2004A GRIP)	-	(16,062,233)
Total Special Revenue Funds	$ 131,271,783	(131,271,783)

Due from/to other fund amounts occur for the following reasons:

- The State Road Fund pays expenditures on behalf of other funds.
- Grant and other funds are recorded in the State Road Fund and then transferred to the appropriate funds.

8. *INVENTORY*

Inventory as of June 30, 2006 consists of the following:

Highway maintenance materials stockpiled	$ 7,610,494
Repair parts and expendable supplies	4,176,347
Fuel, oil and lubricants	727,456
	$ 12,514,297

9. CAPITAL ASSETS

A summary of changes in capital assets follows:

		Balance June 30, 2005	Additions	Adjustments/ Deletions	Balance June 30, 2006
Non-depreciable assets:					
Land	$	5,064,678	158,415	(160,017)	5,063,076
Right of way		360,549,775	11,259,965	-	371,809,740
Depreciable assets:					
Infrastructure		15,069,367,358	349,159,210	(308,471,791)	15,110,054,777
Equipment and furniture		50,050,041	2,654,786	(1,721,924)	50,982,903
Vehicles		159,575,253	11,828,196	(5,687,105)	165,716,344
Buildings		36,706,531	1,009,125	(126,165)	37,589,491
Total		15,681,313,636	376,069,697	(316,167,002)	15,741,216,331
Less accumulated depreciation:					
Infrastructure		(8,200,214,936)	(499,028,410)	308,471,791	(8,390,771,555)
Equipment and furniture		(33,879,955)	(3,075,763)	1,615,515	(35,340,203)
Vehicles		(105,612,347)	(11,587,356)	5,629,706	(111,569,997)
Buildings		(21,622,373)	(1,146,763)	16,928	(22,752,208)
Total accumulated depreciation		(8,361,329,611)	(514,838,292)	315,733,940	(8,560,433,963)
Net total	$	7,319,984,025	(138,768,595)	(433,062)	7,180,782,368

Current year depreciation expense was $514,838,292. There were no software costs to capitalize as of year-end.

10. *OPERATING TRANSFERS*

The following is a summary of interfund transfers (in)/out in the governmental fund financial statements for the year ended June 30, 2006:

		Major			Non-Major
		State Road Fund	Debt Service Funds	Special Revenue Funds	
(1)	$	(170,258,516)	104,068,876	-	66,189,640
(2)		2,648,475	-	(2,776,412)	127,937
	$	(167,610,041	104,068,876	(2,776,412)	66,317,577

(1) The transfer from the State Road fund to the following debt service funds for the debt repayments required by the State of New Mexico Highway Debentures.

(2) The transfer of federal revenue received in the State Road Fund for Federal Planning and Development.

11. *LONG-TERM OBLIGATIONS*

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

Governmental Activities		Balance at June 30, 2005	Increase	Decrease	Balance at June 30, 2006	Amounts Due Within One Year
1998 WIPP Bonds	$	37,220,000	-	(2,785,000)	34,435,000	-
1998 CHAT Bonds		21,960,000	-	-	21,960,000	-
1999 CHAT Bonds		38,585,000	-	(8,920,000)	29,665,000	9,385,000
2000 CHAT Bonds		65,515,000	-	(11,700,000)	53,815,000	12,340,000
2001 CHAT Bonds		138,690,000	-	(14,875,000)	123,815,000	16,730,000
2002A CHAT Bonds		51,880,000	-	(7,180,000)	44,700,000	7,540,000
2002B WIPP Bonds		33,815,000	-	(7,730,000)	26,085,000	8,115,000
2002C HIF Bonds		32,945,000	-	-	32,945,000	-
2002D CHAT Bonds		5,770,000	-	-	5,770,000	1,200,000
2004A GRIP Bonds		700,000,000	-	-	700,000,000	-
2004B GRIP Bonds		210,255,000	-	(27,940,000)	182,315,000	19,985,000
2004C GRIP Bonds		200,000,000	-	-	200,000,000	-
Deferred amount on refunding		(32,591,752)	-	1,715,355	(30,876,397)	-
Compensated absences payable		5,754,049	5,079,296	(5,001,510)	5,831,835	5,100,000
Total obligations		1,509,797,297	5,079,296	(84,416,155)	1,430,460,438	80,395,000
Less current portion		84,870,132			80,395,000	
Net long-term obligations	$	1,424,927,165			1,350,065,438	

The State Road Fund is used to liquidate other long-term liabilities, such as compensated absences and capital leases. The Department is authorized to issue bonds from time to time, payable from the proceeds of the collection of gasoline excise taxes, motor vehicle registration fees, and other fees that are required by law to be paid into the State Road Fund and not otherwise pledged solely to the payment of outstanding bonds and debentures. The total aggregate outstanding bonds issued are in accordance with the authorizing legislation for the bonds and other debt with the approval of the State Board of Finance, which includes Section 67-3-59.1 of the New Mexico Statutes Annotated (NMSA) (1978), as amended; and the Supplemental Public Securities Act constituting Sections 6-15-8 through 6-14-11 of the NMSA (1978), as amended.

11. LONG-TERM OBLIGATIONS - continued

The Department issued $105,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1998A and $100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B in October 1998. The net proceeds to the Department were $108,979,050 for the Series 1998A Bonds and $103,753,450 for the Series 1998B Bonds. The cost of issuance for the Series 1998A and Series 1998B Bonds was $773,588 and $767,380, respectively. The Bonds are special limited obligations of the Department, payable solely by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes and vehicle transaction taxes and fees that are required to be paid into the State Road Fund. The Series 1998A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature. The Series 1998B Bonds (1998 WIPP Bonds) were issued by the Department for roads relating to the Waste Isolation Pilot Project (WIPP) in the State of New Mexico.

Principal of the Series 1998A Bonds (CHAT) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT), including interest payments of $3,953,169 based on interest rates that range from 4.5% to 5.125%, are as follows:

Year Ended June 30,	Principal	Interest	Total
Series 1998A CHAT:			
2007	$ -	1,125,450	1,125,450
2008	-	1,125,450	1,125,450
2009	10,705,000	1,125,450	11,830,450
2010	11,255,000	576,819	11,831,819
Total	$ 21,960,000	3,953,169	25,913,169

11. *LONG-TERM OBLIGATIONS - continued*

Principal of the Series 1998 Bonds (WIPP) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2011.

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds), including interest payments of $7,116,238 based on interest rates that range from 3.8% to 5.125%, are as follows:

Year Ended June 30,		Principal	Interest	Total
Series 1998 WIPP:				
2007	$	-	1,751,613	1,715,613
2008		-	1,751,612	1,715,612
2009		10,545,000	1,751,613	12,296,613
2010		11,460,000	1,224,362	12,684,362
2011		12,430,000	637,038	13,067,038
Total	$	34,435,000	7,116,238	41,551,238

On October 2, 1998, the Department borrowed $100,230,000 from the New Mexico Finance Authority (NMFA). The NMFA had issued $100,230,000 of NMFA Federal Highway Grant Anticipation Revenue Bonds to fund the loan. The Department's obligation under the loan agreement is to repay the loan from certain federal funds payable to the Department from the Federal Highway Administration. If insufficient federal revenues are received, the Department will use good faith efforts to seek additional revenues that are otherwise not obligated and are legally available to repay the loan. After all loan payments and other payments due on any future obligations secured by these federal funds are made, any remaining federal funds received will be deposited into the State Road Fund.

Eligible federal funds that can be used for debt repayment are not available for approximately two years after the date of the loan. Accordingly, $8,468,451 of the loan proceeds were recorded to the debt service fund to pay future debt service.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1. Total issue costs were $2,144,423 net of $1,656,807 of the premium received from the sale of the NMFA bonds.

11. *LONG-TERM OBLIGATIONS - continued*

Principal of the loan was paid in May 2004 with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

The Department issued $100,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1999 in November 1999. The gross proceeds to the Department were $101,161,999, and the cost of issuance including underwriting fees was approximately $791,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 1999 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 4.75% to 5.75% per annum, is payable semi-annually on June 15 and December 15 through the year 2009.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of $3,362,406, are as follows:

Year Ended June 30,	Principal	Interest	Total
Series 1999 CHAT:			
2007	$ 9,385,000	1,622,406	11,007,406
2008	9,870,000	1,141,425	11,011,425
2009	10,410,000	598,575	11,008,575
Total	$ 29,665,000	3,362,406	33,027,406

The Department issued $201,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A in May 2000. The gross proceeds to the Department were $206,023,307, and the cost of issuance including underwriting fees was approximately $1,392,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 2000 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

11. *LONG-TERM OBLIGATIONS - continued*

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.5% to 6.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of $11,011,500, are as follows:

Year Ended June 30,	Principal	Interest	Total
Series 2000A CHAT:			
2007	$ 12,340,000	3,781,875	16,121,875
2008	13,060,000	3,138,375	16,198,375
2009	13,810,000	2,420,650	16,230,650
2010	14,605,000	1,670,600	16,275,600
Total	$ 53,815,000	11,011,500	64,826,500

The Department issued $198,800,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A, in November 2001. The gross proceeds to the Department were $209,050,033, including $10,250,033 of an original issue premium. The cost of issuance including underwriting fees was approximately $1,343,586. The bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2001A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15. Interest, with rates ranging from 4.3% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2013.

11. LONG-TERM OBLIGATIONS - continued

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of $27,321,613 are as follows:

Year Ended June 30,		Principal	Interest	Total
Series 2001A CHAT:				
2007	$	16,730,000	6,344,648	23,074,648
2008		17,685,000	5,508,147	23,193,147
2009		14,630,000	4,623,898	19,253,898
2010		9,545,000	3,892,397	13,437,397
2011		20,645,000	3,415,148	24,060,148
2012 - 2013		44,580,000	3,537,375	48,117,375
Total	$	123,815,000	27,321,613	151,136,613

On March 14, 2001, the Department borrowed $18,535,000 from the New Mexico Finance Authority (NMFA). The NMFA had issued $18,535,000 of NMFA Federal Highway Grant Anticipation Revenue Bonds to fund the loan. The Department's obligation under the loan agreement is to repay the loan from certain federal funds payable to the Department from the Federal Highway Administration. If insufficient federal revenues are received, the Department will use good faith efforts to seek additional revenues that are otherwise not obligated and are legally available to repay the loan. After all loan payments and other payments due on any future obligations secured by these federal funds are made, any remaining federal funds received will be deposited into the State Road Fund.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1. Total issue costs were $467,998 and there was a premium of $704,443 from the sale of the NMFA bonds.

Principal of the loan was paid in May 2004 with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

11. *LONG-TERM OBLIGATIONS - continued*

The Department issued $95,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 2002A in January 2002. The gross proceeds including accrued interest to the Department were $98,361,534, including $3,913,043 of an original premium. The cost of issuance including underwriting fees was $592,819. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees and, to the extent authorized, to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid in the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.0% to 5.5% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of $10,969,950, are as follows:

Year Ended June 30,		Principal	Interest	Total
Series 2002A CHAT:				
2007	$	7,540,000	2,378,100	9,918,100
2008		7,935,000	1,982,250	9,917,250
2009		-	1,585,500	1,585,500
2010		8,750,000	1,585,500	10,335,500
2011		-	1,126,125	1,126,125
2012 - 2014		20,475,000	2,312,475	22,787,475
Total	$	44,700,000	10,969,950	55,669,950

11. LONG-TERM OBLIGATIONS - continued

The Department issued $79,920,000 of the New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds, Series 2002B, in January 2002. The gross proceeds including accrued interest to the Department were $82,007,147 including $2,670,686 of an original issue premium. The cost of issuance including underwriter fees was $614,561. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002B Bonds (WIPP Bonds) were issued to provide funds to refund the 1996 WIPP Bonds on the date of delivery of the Bonds, and to pay all costs incident thereto and to the issuance of the Bonds, including, without limitation, costs of issuance.

Principal of the bonds is payable on June 15. Interest at a rate of 5% per annum is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of $3,147,250, are as follows:

Year Ended June 30,		Principal	Interest	Total
Series 2002B WIPP:				
2007	$	8,115,000	1,304,250	9,419,250
2008		8,525,000	898,500	9,423,500
2009		-	472,250	472,250
2010		9,445,000	472,250	9,917,250
Total	$	26,085,000	3,147,250	29,232,250

11. LONG-TERM OBLIGATIONS - continued

The Department issued $67,750,000 of the New Mexico State Highway Infrastructure Fund Revenue Highway Bonds (additionally secured by a Senior Subordinate Lien on Certain State Road Fund Revenues), Series 2002C, in May 2002. The gross proceeds including accrued interest to the Department were $69,809,036 including $2,499,411 of an original issue premium. The cost of issuance including underwriter fees was $440,375. The bonds are special limited obligations of the State Highway Commission, payable from and secured by a senior pledge of proceeds of the collection of leased vehicle gross receipts tax revenues and tire recycling fees, in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on such amounts in the Highway Infrastructure Fund. The Bonds are additionally payable from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002C Bonds (HIF Bonds) were issued to funds projects identified by the Department and the Legislature.

Principal of the Bonds is payable on June 15. Interest, with rates ranging from 3.25% to 5.375% per annum, is payable semi-annually on June 15 and December 15 through the year 2017.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of $14,156,816, are as follows:

Year Ended June 30,		Principal	Interest	Total
Series 2002C HIF:				
2007	$	-	1,709,524	1,709,524
2008		-	1,709,524	1,709,524
2009		3,000,000	1,709,524	4,709,524
2010		2,000,000	1,559,524	3,559,524
2011		-	1,459,524	1,459,524
2012 - 2016		21,770,000	5,684,634	27,454,634
2017		6,175,000	324,562	6,499,562
Total	$	32,945,000	14,156,816	47,101,816

11. LONG-TERM OBLIGATIONS - continued

The Department issued $16,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002D, in December 2002. The gross proceeds to the Department were $16,572,740 including $699,498 of an original issue premium. The cost of issuance including underwriter fees was $126,758. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002D Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable as follows on June 15. Interest, with rates ranging from 3.9% to 5.00% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds including interest payments of $1,285,175 are as follows:

Year Ended June 30,	Principal	Interest	Total
Series 2002D CHAT:			
2007	$ 1,200,000	254,825	1,454,825
2008	-	194,825	194,825
2009	-	194,825	194,825
2010	1,360,000	194,825	1,554,825
2011	-	126,825	126,825
2012 - 2014	3,210,000	319,050	3,529,050
	$ 5,770,000	1,285,175	7,055,175

11. *LONG-TERM OBLIGATIONS - continued*

The Department issued $700,000,000 through the New Mexico Finance Authority's (NMFA) State Transportation Revenue Bonds (Senior Lien), Series 2004A, in May 2004. The gross proceeds to the Department were $738,787,815, including $43,556,815 of an original issue premium. The cost of issuance including underwriter fees was $6,368,367. The Bonds are special limited obligations of the Department, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and that the Department has determined to be necessary or desirable.

The Department is responsible for the NMFA issuance costs and must annually pay the NMFA 25 basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 3.8% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2024.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of $470,711,167, are as follows:

Year Ended June 30,	Principal	Interest	Total
Series 2004A GRIP:			
2007	$ -	36,216,759	36,216,759
2008	-	36,216,759	36,216,759
2009	-	36,216,759	36,216,759
2010	-	36,216,759	36,216,759
2011	-	36,216,759	36,216,759
2012 - 2016	145,710,000	175,972,147	321,682,147
2017 - 2021	413,155,000	103,548,387	516,703,387
2022 - 2024	141,135,000	10,106,838	151,241,838
	$ 700,000,000	470,711,167	1,170,711,167

11. LONG-TERM OBLIGATIONS - continued

The Department issued $237,950,000 and $200,000,000 of bonds through the New Mexico Finance Authority's (NMFA) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C, in May 2004. The gross proceeds to the Department for both issuances were $451,069,205, including $16,347,187 of an original issue premium. The cost of issuance including underwriter fees was $4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The $237,950,000 Series 2004B Bonds are special limited obligations of the Department, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the NMFA and the Commission.

Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 2.0% to 5.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of $46,700,365, are as follows:

Year Ended June 30,	Principal	Interest	Total
Series 2004B GRIP:			
2007	$ 19,985,000	8,804,615	28,789,615
2008	13,170,000	7,938,265	21,108,265
2009	10,735,000	7,347,765	18,082,765
2010	9,230,000	6,879,385	16,109,385
2011	36,275,000	6,421,085	42,696,085
2012 - 2014	92,920,000	9,309,250	102,229,250
Total	$ 182,315,000	46,700,365	229,015,365

11. LONG-TERM OBLIGATIONS - continued

The Series 2004C Bonds are special limited obligations of the Department payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C bonds or which may hereafter be used through the NMFA. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

Refunding

NMFA, on behalf of the Department, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the Department, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. Governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. The bonds outstanding of $363,490,000 were considered defeased as of June 30, 2006.

The deferred amount on the refunding of $30,876,397 recorded as a reduction of the Department's long-term obligation is the difference between the reacquisition price (funds required to refund the old debt including call provisions) and the net carrying amount of the old debt including unamortized old bond issuance costs. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized as additional interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The Department is responsible for the issuance costs and must annually pay the 25 basis points on the outstanding principal balance, which will be $500,000 a year through 2022 and $339,063 during 2023. Principal of the bonds is payable on June 15, with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is based on interest rate swap agreements as disclosed below.

11. *LONG-TERM OBLIGATIONS - continued*

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

Objective of the Swaps. In April of 2004, the New Mexico Finance Authority (the "Authority") entered into two (2) forward starting swaps with two (2) counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a $1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between $175 million and $200 million in cash which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072% based on an amortizing national schedule with a combined $220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. The option premium is equal to 0.34% per annum, resulting in a net fixed rate of 4.732%. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the swaps had a negative fair value of $6,818,902 without the option. The options had a negative value of $12,823,336 in isolation of the swaps, thus the swaps including the options had a total negative value of $19,642,238. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

11. LONG-TERM OBLIGATIONS - continued

State Transportation Revenue Bonds, Series 2006 - continued

Credit Risk. As of June 30, 2006 the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

Termination Risk. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. The swap also includes an additional termination event related to non-issuance of the associated bonds. That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial cash reserves which will mitigate this risk by generating variable rate income. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3

Objective of the Swap. In April of 2004, the Authority entered into three (3) swaps with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of $11,524,206.49 or 3.02% of the refunded bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate bonds at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swap was to effectively change the Authority's interest rate on the bonds to a fixed rate.

11. LONG-TERM OBLIGATIONS - continued

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

Terms. The swaps were executed with Goldman Sachs Mitsui Marine Derivative (Goldman), Lehman Brothers Derivative Products Inc. (Lehman) and Royal Bank of Canada (RBC) at respective initial amortizing notional amounts of $50,000,000, $50,000,000 and $100,000,000. The counterparties were, at the trade date, rated AA+/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody',s respectively. All three swaps commenced on May 20, 2004 and will mature on June 15, 2024. Under the swaps, the Authority pays a fixed rate of 3.934% and received a variable rate computed as the BMA index until June 15, 2006, on which date the variable interest rate received switched to 68% of the one month London Interbank Offered Rate ("LIBOR") until maturity. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the Lehman swap and Goldman swap each had a fair value of $62,922, while the RBC swap had a fair value of $125,844. The total fair value on all the swaps was $251,688. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk. As of June 30, 2006 the Authority is exposed to credit risk in an amount equal to the positive fair value for each of the swaps. To mitigate credit risk, the counterparties are required to post collateral based upon the agreed upon collateral threshold levels per the Credit Support Annex (CSA) which are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

11. *LONG-TERM OBLIGATIONS - continued*

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

Basis Risk. As of June 15, 2006, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The Authority is also exposed to tax risk, a form of basis risk, where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The effect of the difference in basis is indicated by the difference between the intended synthetic rate (3.934%) and the synthetic rate as of June 30, 2006 (4.197%). The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2006, the rate on the bonds was 3.89%, whereas 68% of one month LIBOR was 3.627%.

Termination Risk. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt: As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending	Variable Rate Bonds		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Total
2007	$ -	7,780,000	614,000	8,394,000
2008	-	7,780,000	614,000	8,394,000
2009	-	7,780,000	614,000	8,394,000
2010	-	7,780,000	614,000	8,394,000
2011	-	7,780,000	614,000	8,394,000
2012 - 2016	-	38,900,000	3,070,000	41,970,000
2017 - 2021	-	38,900,000	3,070,000	41,970,000
2022 - 2024	200,000,000	20,511,645	1,618,785	222,130,430
	$ 200,000,000	137,211,645	10,828,785	348,040,430

11. LONG-TERM OBLIGATIONS - continued

Capital Leases

The Department has in the past entered into several lease agreements as lessee for financing the acquisition of computer equipment. During 2005, the Department took advantage of the lease buy-out clauses in the lease agreements. As a result, the Department has eliminated all capital leases as of June 30, 2005. These lease agreements qualified as capital leases for accounting purposes and, therefore, had been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases had interest rates that range from 10% to 19%. A total of $1,023,499 was paid during the 2006 fiscal year for capital lease obligations, and was recorded as debt service expense in the State Road Fund. No computer equipment was acquired through capital leases during the 2006 fiscal year.

There are no future minimum lease obligations to report as of June 30, 2006.

Total future principal and interest obligation repayments are as follows:

Year Ended June 30,		Bonds and Loans
2007	$	148,457,065
2008		139,718,132
2009		139,749,809
2010		139,790,421
2011		126,620,504
2012 - 2016		565,139,931
2017 - 2021		562,542,949
2022 - 2024		372,313,327
Total	$	2,194,332,138

An obligation amounting to $5,831,835 at June 30, 2006, has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

12. *RETIREMENT AND HEALTH PLANS (STATE PERA)*

♦ *PERA Plan Description*

Substantially all of the Department'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, 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. A copy of that report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

♦ *Funding Policy*

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature.

The Department's contributions to PERA for the years ending June 30, 2006, 2005 and 2004 were $15,199,631, $18,165,681, and $12,192,028, respectively, equal to the amount of the required contribution for each year.

13. *RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS*

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have been retired from certain public service in New Mexico. The New Mexico Retiree Health Care Department (NMRHCA) is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance consisting of a plan, or optional plans of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirements Act, the Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

13. *RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS - continued*

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf; unless that person retires before the employer's NMRHCA effective date, in which event the time period for required employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement, or (2) retirees defined by the Act who retired prior to July 1, 1990, and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional $5 if eligible participant retired prior to the employer's NMRHCA effective date, or is a former legislator, and made no contributions to the plan. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including terminations of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post-employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, New Mexico 87107.

For the fiscal year ended June 30, 2006, the Department remitted $1,146,926 in employer contributions and $573,463 in employee contributions to the Retiree Health Care Authority.

14. *TRANSFERS TO/FROM OTHER STATE AGENCIES AND LOCAL GOVERNMENTS*

The following is a summary of interagency cash transfers as a result of the 2004 General Appropriations Act for an employee assistance assessment to the General Services Department, for collective bargaining to the Department of Finance and Administration, and for an office lease to the Taxation and Revenue Department. The transfer to Department of Public Safety is a result of an appropriation for the motor transportation division from the State Road Fund.

14. *TRANSFERS TO/FROM OTHER STATE AGENCIES AND LOCAL GOVERNMENTS - continued*

	Agency Number	Operating Transfers Out
Transfers to Other Agencies:		
Department of Public Safety	01-790	$ 8,176,400

15. *COOPERATIVE AND JOINT POWERS AGREEMENTS*

The State Legislature and the State Highway Commission have approved certain agreements between the Department and various counties, municipalities and other agencies to construct or improve public highways, school grounds, parking areas, and for the purpose of litter control. The Department's funding responsibility varies from zero to 100%. None of these cooperative and joint power agreements have created legally separate organizations that need to be included as component units or joint ventures in the Department's financial statements.

JOINT POWER AGREEMENTS

Contract Number	Contractor	Description	Expended 2006
J00706	Department of Tourism	Implement a statewide public awareness litter campaign to educate and inform New Mexicans about litter.	-
J00707	Zuni Pueblo	A pedestrian travel demand study for Black Rock Community.	83,000
J00708	Navajo Nation	Road improvements and a maintenance yard at the Bread Springs Chapter of Navajo Nation in McKinley County.	100,000
J00709	Department of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program to maintain an inventory of cultural properties in the State of New Mexico.	25,000
J00710	Santa Ana Pueblo	Provide roadside drainage for the Pueblo/cn L3016.	200,000
J00711	Department of Cultural Affairs, Historic Preservation Division	Provide FY 2006 – 2010 Consultant Design Program for the review of cultural resource documents pertinent to the completion of proposed highway construction project in New Mexico.	50,000
J00713	Pueblo of Zuni	Install two traffic school flashing units on State Road 53 Priority (2) BIA Route 301 North Zuni High School.	21,306
J00714	Pueblo of Laguna	Provide for the design and improvement of the Exit 108 Interchange on Interstate Highway 40 and BIA Road L22 on the Pueblo of Laguna Indian Reservation. Escrow agreement between Pueblo of Laguna, NMDOT and Wells Fargo Bank is the escrow agent.	-

16. *RISK MANAGEMENT*

The Department is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the agency carries insurance (Workers' Compensation, Unemployment Compensation, Employee Liability and Transportation Property), with the State of New Mexico Risk Management Division (RMD) of the General Services Department. There are no pending or known threatened legal proceedings involving material matters to which the Department is party.

17. *FEDERAL HIGHWAY ADMINISTRATION (FHWA) AUTHORIZATIONS*

The FHWA annually allocates funds to the State of New Mexico, which are available for various federally-sponsored projects. The authorizations expire within two to five years from date of authorization.

In order to obtain funding commitments from FHWA for such allotments, projects must be submitted to and be approved by the FHWA. As of June 30, 2006, the amount of authorizations granted to the State of New Mexico that had not been converted to commitments because FHWA did not award sufficient obligation authority to the Department was $73,000,000.

18. *LITIGATION*

The Department is subject to various legal proceedings, claims and liabilities, including right-of-way condemnation proceedings, contractor claims and employee claims, which arise in the ordinary course of the Department's operations. There are various contractor lawsuits and claims against the Department for various reasons. The Department contests these claims and if a likelihood of a loss is probable, the Department accrues the loss in the accompanying financial statements. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

19. *OPERATING LEASE COMMITMENT*

The Department leases certain equipment and premises under numerous operating leases. Leases are subject to future appropriation and as such are cancelable by the Department at the end of a fiscal year. Rental expense for the year ended June 30, 2006, was $1,506,252.

19. OPERATING LEASE COMMITMENT - continued

The future minimum lease payments under operating leases as of June 30, 2006 are approximately as follows:

Years ending June 30:		Lease Amounts
2007	$	554,980
2008		441,660
2009		321,000
2010		-
2011		-
2012 and thereafter		-
	$	1,317,640

20. COMMITMENTS AND CONTINGENCIES

♦ ***Arbitrage Rebate Obligation***
As of June 30, 2006, the Department has paid all arbitrage rebates due to the Internal Revenue Service (IRS) on the excess interest income earned on the 1999 CHAT and 2000 CHAT bond proceeds.

♦ ***Grant Revenue***
The Department participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Department has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2006 may be impaired. In the opinion of the Department, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

♦ ***Warranty Claim***
The Department has filed a notice of deficiency regarding New Mexico 44 (now U.S. 550) under the design and construction warranty provided by the contractor. The Department has not specified a dollar amount of the cost of the repairs or replacement attributable to its claim made under the warranty. Accordingly, no amount for the claim receivable is accrued for in the June 30, 2006 financial statements.

21. UNRESERVED, UNDESIGNATED FUND BALANCE (DEFICIT)

The unreserved, undesignated fund balance (deficit) is the component of fund balance that represents the portion of the encumbrances that have not been billed to the applicable funding source.

22. PRIOR PERIOD ADJUSTMENT

The following errors in the State Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been $29,068,461 greater for this fund.

	State Road Fund
FUND BALANCE, BEGINNING OF YEAR	$ 158,666,205
ADJUSTMENTS:	
To correct invalid Due to Other Funds balance that should have been Due from Other Funds	12,657,888
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	24,803,601
To record tax revenue reimbursement to Taxation and Revenue for overpayment	(2,064,084)
TOTAL ADJUSTMENTS	35,397,405
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	$ 194,063,610

The following errors in the Local Government Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been $1,720,524 greater for this fund.

	Local Government Road Fund
FUND BALANCE, BEGINNING OF YEAR	$ 17,680,376
ADJUSTMENT:	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	1,720,253
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	$ 19,400,629

22. PRIOR PERIOD ADJUSTMENT - continued

The following errors in the 2004A GRIP Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been $6,328,944 lower for this fund.

	2004A GRIP
FUND BALANCE, BEGINNING OF YEAR	$ 619,332,742
ADJUSTMENTS:	
To post liability as of June 30, 2005	(6,328,944)
TOTAL ADJUSTMENTS	(6,328,944)
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	$ 613,003,798

The following errors in the non-major special revenue funds were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been $418,094 greater for these funds.

	Non-major Special Revenue Funds
FUND BALANCE, BEGINNING OF YEAR	$ 65,028,409
ADJUSTMENT:	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	418,094
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	$ 65,446,503

23. SUBSEQUENT EVENTS

The Department issued $450 million in new bonds for highway reconstruction and infrastructure improvement projects under Governor Richardson's Investment Partnership (GRIP). The 20-year bonds carry annual interest rates between 4.15 percent and 4.987 percent. The bonds sold at a premium of $12.5 million.

24. BUDGET TO GAAP RECONCILIATION – STATE INFRASTRUCTURE BANK

Budgetary basis revenues	$	460,073
Adjustments and accruals:		
Interest receivable		75,801
Notes and loans receivable		31,910
GAAP basis revenues	$	567,784

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2006

		Special Revenue Funds								
		Traffic Safety Fund (CAS Fund #208)	State Aviation Fund (CAS Fund #205)	Motorcycle Training Fund (CAS Fund #206)	Driver Improvement Program Fund	DWI Prevention and Education Fund (CAS Fund #207)	Bond Project Fund (1993 Bonds) (CAS Fund #394)	Bond Project Fund (WIPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)	Bond Project Fund (2000 CHAT)
ASSETS:										
Cash and cash equivalents:										
Unrestricted	$	3,284,326	625,844	78,661	1,475	573,762	1,460,095	-	219,157	4,527
Restricted		-	-	-	-	-	-	-	-	-
Receivables:										
Taxes receivable, net		298,179	333,236	9,874	23,163	23,088	-	-	-	-
Due from other funds		3,423,860	1,340,226	-	289,504	-	-	-	3,088,612	1,788,987
Receivable from other governments		1,157,159	-	-	-	-	-	-	-	-
Interest receivable		21,782	-	1,053	-	-	9,947	293	1,542	31
Other receivables		739	-	-	-	-	-	-	-	-
TOTAL ASSETS	$	8,186,045	2,299,306	89,588	314,142	596,850	1,470,042	293	3,309,311	1,793,545
LIABILITIES AND FUND BALANCES:										
LIABILITIES:										
Accounts payable	$	1,010,959	10,037	-	-	55,396	-	19,477	-	32,300
Due to other funds		4,149,734	174,177	-	-	31,533	37,804	-	1,224,580	3,650,144
Deferred revenue		48,873	-	-	-	-	-	-	-	-
Other accrued expenses		24,937	30,624	-	-	-	-	-	-	-
TOTAL LIABILITIES		5,234,503	214,838	-	-	86,929	37,804	19,477	1,224,580	3,682,444
FUND BALANCES:										
Unreserved, reported in non-major:										
Special revenue funds		2,951,542	2,084,468	89,588	314,142	509,921	1,432,238	(19,184)	2,084,731	(1,888,899)
Capital projects funds		-	-	-	-	-	-	-	-	-
Debt service funds		-	-	-	-	-	-	-	-	-
Permanent Endowment Fund		-	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES		2,951,542	2,084,468	89,588	314,142	509,921	1,432,238	(19,184)	2,084,731	(1,888,899)
TOTAL LIABILIATIES AND FUND BALANCES	$	8,186,045	2,299,306	89,588	314,142	596,850	1,470,042	293	3,309,311	1,793,545

See Notes to Financial Statements.

AS OF JUNE 30, 2006

		Special Revenue Funds							Capital Project Funds	
		Bond Project Fund (2001 CHAT)	Bond Project Fund (2002A CHAT)	Bond Project Fund (2002C HIF)	Bond Project Fund (2002D CHAT)	Bond Project Fund (2004 B/C GRIP)	Federal Planning and Development Fund	Total Special Revenue Funds	Capital Project Improvements Fund	Total Capital Project Funds
ASSETS:										
Cash and cash equivalents:										
Unrestricted	$	9,343,403	139.960	1,164,997	670.506	43,782.628	-	61.349.341	-	-
Restricted		-	-	-	-	-	-	-	-	-
Receivables:										
Taxes receivable, net		-	-	-	-	-	-	687.540	-	-
Due from other funds		-	-	-	-	-	-	9.931.189	13.835,328	13.835.328
Receivable from other governments		-	-	-	-	-	759.671	1.916.830	-	-
Interest receivable		66,890	985	9.199	32,111	106.100	-	249.933	-	-
Other receivables		-	-	-	-	-	-	739	-	-
TOTAL ASSETS	$	9,410,293	140,945	1,174,196	702,617	43,888,728	759,671	74,135,572	13,835,328	13,835,328
LIABILITIES AND FUND BALANCES:										
LIABILITIES:										
Accounts payable	$	294,396	3,036	50.533	944,095	-	31,326	2,451,555	10.623	10.623
Due to other funds		899.327	1,988,154	-	-	-	726,308	12.881.761	-	-
Deferred revenue		-	-	-	-	748,381	-	797.254	-	-
Other accrued expenses		-	-	-	-	-	37,654	93.215	-	-
TOTAL LIABILITIES		1,193,723	1,991.190	50.533	944,095	748,381	795,288	16.223.785	10,623	10.623
FUND BALANCES:										
Unreserved, reported in non-major:										-
Special revenue funds		8.216.570	(1.850.245)	1.123,662	(241,477)	43.140,347	(35,617)	57.911.787	-	-
Capital projects funds		-	-	-	-	-	-	-	13.824.705	13.824.705
Debt service funds		-	-	-	-	-	-	-	-	-
Permanent Endowment Fund		-	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES		8.216.570	(1.850,245)	1.123.663	(241,478)	43.140.347	(35.617)	57.911.787	13.824.705	13.824.705
TOTAL LIABILIATIES AND FUND BALANCES	$	9,410,293	140,945	1,174,196	702,617	43,888,728	759,671	74,135,572	13,835,328	13,835,328

See Notes to Financial Statements.

AS OF JUNE 30, 2006

		Debt Service Funds							
		Debt Service (1993 Bonds)	Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)	Debt Service (1998 NMFA Loan)	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	Debt Service (2001 NMFA Loan)	Debt Service (2002A CHAT)
ASSETS:									
Cash and cash equivalents:									
Unrestricted	$	-	82,612	143,308	-	401,572	594,534	-	333,987
Restricted		-	-	-	-	-	-	-	-
Receivables:									
Taxes receivable, net		100	93	-	-	-	-	-	652
Due from other funds		-	13,829	-	-	-	-	-	-
Receivable from other governments		-	-	-	-	-	-	-	-
Interest receivable		328	7,671	2,691	-	19,350	26,513	-	16,676
Other receivables		-	-	-	-	-	-	-	-
TOTAL ASSETS	$	428	104,205	145,999	-	420,922	621,047	-	351,315
LIABILITIES AND FUND BALANCES:									
LIABILITIES:									
Accounts payable	$	-	-	-	-	-	-	-	-
Due to other funds		-	-	-	-	-	-	-	-
Deferred revenue		-	-	-	-	-	-	-	-
Other accrued expenses		-	-	-	-	-	-	-	-
TOTAL LIABILITIES		-	-	-	-	-	-	-	-
FUND BALANCES:									
Unreserved, reported in non-major:									
Special revenue funds		-	-	-	-	-	-	-	-
Capital projects funds		-	-	-	-	-	-	-	-
Debt service funds		428	104,205	145,999	-	420,922	621,047	-	351,315
Permanent Endowment Fund		-	-	-	-	-	-	-	-
TOTAL FUND BALANCES		428	104,205	145,999	-	420,922	621,047	-	351,315
TOTAL LIABILIATIES AND FUND BALANCES	$	428	104,205	145,999	-	420,922	621,047	-	351,315

See Notes to Financial Statements.

AS OF JUNE 30, 2006

		Debt Service Funds				
		Debt Service (2002B WIPP)	Debt Service (2002C HIF)	Debt Service (2002D CHAT)	Total Debt Service Funds	Total Governmental Funds
ASSETS:						
Cash and cash equivalents:						
Unrestricted	$	359,201	81,027	15,237	2,011,478	63,360,819
Restricted		-	-	-	-	-
Receivables:						
Taxes receivable, net		-	255	-	1,100	688,640
Due from other funds		-	-	-	13,829	23,780,346
Receivable from other governments		-	-	-	-	1,916,830
Interest receivable		17,426	1,664	329	92,648	342,581
Other receivables		-	-	-	-	739
TOTAL ASSETS	$	376,627	82,946	15,566	2,119,055	90,089,955
LIABILITIES AND FUND BALANCES:						
LIABILITIES:						
Accounts payable	$	-	-	-	-	2,462,178
Due to other funds		-	-	-	-	12,881,761
Deferred revenue		-	-	-	-	797,254
Other accrued expenses		-	-	-	-	93,215
TOTAL LIABILITIES		-	-	-	-	16,234,408
FUND BALANCES:						
Unreserved, reported in non-major:					-	-
Special revenue funds		-	-	-	-	57,911,787
Capital projects funds		-	-	-	-	13,824,705
Debt service funds		376,627	82,946	15,566	2,119,055	2,119,055
Permanent Endowment Fund		-	-	-	-	-
TOTAL FUND BALANCES		376,627	82,946	15,566	2,119,055	73,855,547
TOTAL LIABILIATIES AND FUND BALANCES	$	376,627	82,946	15,566	2,119,055	90,089,955

See Notes to Financial Statements.

AS OF JUNE 30, 2006

		Special Revenue Funds									
		Traffic Safety Fund (CAS Fund #208)	State Aviation Fund (CAS Fund #205)	Motorcycle Training Fund (CAS Fund #206)	Driver Improvement Program Fund	DWI Prevention and Education Fund (CAS Fund #207)	Bond Project Fund (1993 Bonds) (CAS Fund #394)	Bond Project Fund (WIPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)	Bond Project Fund (2000 CHAT)	Bond Project Fund (2001 CHAT)
REVENUES:											
User and fuel taxes	$	1,257,145	1,978,889	86,424	184,393	204,386	-	-	-	-	-
U.S. Department of Transportation		6,382,214	885,097	-	-	-	-	-	-	-	-
N.M. Department of Human Services		-	-	-	-	-	-	-	-	-	-
Miscellaneous		-	4,740	-	-	-	-	-	-	-	-
DWI Interlock Device		1,185,849	-	-	-	-	-	-	-	-	-
Interest Revenue		92,191	-	4,615	-	-	48,864	1,240	7,594	157	316,388
TOTAL REVENUES		9,017,399	2,868,726	91,039	184,393	204,386	48,864	1,240	7,594	157	316,388
EXPENDITURES:											
Current:											
Operating costs		17,816	63,659	-		-	-	-	-	-	-
Personal services		225,945	375,649	-	-	-	-	-	-	-	-
Out-of-state travel		23,239	15,721	-	-	-	-	-	-	-	-
Grants and services		8,102,919	666,997	100,001	162,835	65,062	-	-	-	-	-
Travel		2,462	36,195	-	-	-	-	-	-	-	-
Maintenance and repairs		-	51,047	-	-	-	-	-	-	-	-
Supplies		20,710	21,944	-	-	-	-	-	-	-	-
Contractual services		-	519,883	-	-	-	-	-	-	1,735,753	-
Other Costs		-	16,277	-	-	-	-	-	-	-	-
Employee Benefits		94,901	121,871	-	-	-	-	-	-	-	-
Capital outlay		-	-	-	-	-	-	-	-	-	414,979
Debt service:											
Principal		-	-	-	-	-	-	-	-	-	-
Interest and other charges		-	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES		8,487,992	1,889,243	100,001	162,835	65,062	-	-	-	1,735,753	414,979
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		529,407	979,483	(8,962)	21,558	139,324	48,864	1,240	7,594	(1,735,596)	(98,591)
OTHER FINANCING SOURCES (USES):											
Transfers in		-	-	-	-	-	-	-	-	-	-
Transfers out		-	-	-	14,674	-	12,821	(36,199)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)		-	-	-	14,674	-	12,821	(36,199)	-	-	-
NET CHANGES IN FUND BALANCES		529,407	979,483	(8,962)	36,232	139,324	61,685	(34,959)	7,594	(1,735,596)	(98,591)
FUND BALANCES, June 30, 2005		2,319,756	809,270	98,550	257,910	370,597	1,370,553	15,775	2,077,137	(153,303)	8,315,161
RESTATEMENT (NOTE 22)		102,379	295,715	-	20,000	-	-	-	-	-	-
FUND BALANCES, June 30, 2005		2,422,135	1,104,985	98,550	277,910	370,597	1,370,553	15,775	2,077,137	(153,303)	8,315,161
FUND BALANCES, June 30, 2006	$	2,951,542	2,084,468	89,588	314,142	509,921	1,432,238	(19,184)	2,084,731	(1,888,899)	8,216,570

AS OF JUNE 30, 2006	Special Revenue Funds						Capital Project Funds	
	Bond Project Fund (2002A CHAT)	Bond Project Fund (2002C HIF)	Bond Project Fund (2002D CHAT)	Bond Project Fund (2004 B/C GRIP)	Federal Planning and Development Fund	Total Special Revenue Funds	Capital Project Improvements Fund	Total Capital Projects Funds
REVENUES:								
User and fuel taxes	$ -	-	-	-	-	3,711,237	-	-
U.S. Department of Transportation	-	-	-	-	5,127,984	12,495,295	-	-
N.M. Department of Human Services	-	-	-	-	1,753,264	1,753,264	-	-
Miscellaneous	-	-	-	-	-	4,740	-	-
DWI Interlock Device	-	-	-	-	-	1,185,849	-	-
Interest Revenue	4,849	45,870	174,374	1,021,917	-	1,718,059	-	-
TOTAL REVENUES	4,849	45,870	174,374	1,021,917	6,881,248	20,868,444	-	-
EXPENDITURES:								
Current								
Operating costs		-	-	-	9,105	90,580	-	-
Personal services		-	-	-	144,709	746,303	-	-
Out-of-state travel	-	-	-	-	1,082	40,042	-	-
Grants and services	-	-	-	-	6,881,248	15,979,062	-	-
Travel	-	-	-	-	2,766	41,423	-	-
Maintenance and repairs	-	-	-	-	-	51,047	-	-
Supplies	-	-	-	-	4,326	46,980	-	-
Contractual services	-	-	-	-	348	2,255,984	1,000,000	1,000,000
Other Costs	-	-	-	-	-	16,277	-	-
Employee Benefits	-	-	-	-	40,377	257,149	-	-
Capital outlay	1,128,893	64,976	4,075,322	-	-	5,684,170	-	-
Debt service:						-		-
Principal	-	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	1,128,893	64,976	4,075,322	-	7,083,961	25,209,017	1,000,000	1,000,000
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,124,044)	(19,106)	(3,900,948)	1,021,917	(202,713)	(4,340,573)	(1,000,000)	(1,000,000)
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	304	304	-	-
Transfers out	-	-	-	944,033	(63,141)	872,188	12,000,000	12,000,000
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	944,033	(62,837)	872,492	12,000,000	12,000,000
NET CHANGES IN FUND BALANCES	(1,124,044)	(19,106)	(3,900,948)	1,965,950	(265,550)	(3,468,081)	11,000,000	11,000,000
FUND BALANCES, June 30, 2005	(726,201)	1,142,769	3,659,470	41,174,397	229,933	60,961,774	2,824,705	2,824,705
RESTATEMENT (NOTE 22)	-	-	-	-	-	418,094	-	-
FUND BALANCES, June 30, 2005	(726,201)	1,142,769	3,659,470	41,174,397	229,933	61,379,868	2,824,705	2,824,705
FUND BALANCES, June 30, 2006	$ (1,850,245)	1,123,663	(241,478)	43,140,347	(35,617)	57,911,787	13,824,705	13,824,705

AS OF JUNE 30, 2006

	Debt Service Funds								
	Debt Service (1993 Bonds)	Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)	Debt Service (1998 NMFA Loan)	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	Debt Service (2001 NMFA Loan)	Debt Service (2002A CHAT)	Debt Service (2002B WIPP)
REVENUES:									
User and fuel taxes	$ -	-	-	-	-	-	-	-	-
U.S. Department of Transportation		-	-	-	-	-	-	-	-
N.M. Department of Human Services		-	-	-	-	-	-	-	-
Miscellaneous		-	-	-	-	-	-	-	-
DWI Interlock Device	-	-	-	-	-	-	-	-	-
Interest Revenue	1,730	83,513	17,163	-	220,311	301,899	-	189,365	190,893
TOTAL REVENUES	1,730	83,513	17,163	-	220,311	301,899	-	189,365	190,893
EXPENDITURES:									
Current:									
Operating costs	-	-	-	-	-	-	-	-	-
Personal services	-	-	-	-	-	-	-	-	-
Out-of-state travel	-	-	-	-	-	-	-	-	-
Grants and services	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-
Maintenance and repairs	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	-	-	-
Other Costs	-	-	-	-	-	-	-	-	-
Employee Benefits	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Debt service:									
Principal	-	2,785,000	-	-	8,920,000	11,700,000	-	7,180,000	7,730,000
Interest and other charges	-	1,890,863	1,125,450	-	2,090,706	3,781,875	-	2,737,100	1,690,750
TOTAL EXPENDITURES	-	4,675,863	1,125,450	-	11,010,706	15,481,875	-	9,917,100	9,420,750
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,730	(4,592,350)	(1,108,287)	-	(10,790,395)	(15,179,976)	-	(9,727,735)	(9,229,857)
OTHER FINANCING SOURCES (USES):									
Transfers in	(50,625)	4,675,863	1,125,450	-	11,010,706	15,481,875	-	9,917,100	9,420,750
Transfers out	-	(100,383)	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(50,625)	4,575,480	1,125,450	-	11,010,706	15,481,875	-	9,917,100	9,420,750
NET CHANGES IN FUND BALANCES	(48,895)	(16,870)	17,163	-	220,311	301,899	-	189,365	190,893
FUND BALANCES, June 30, 2005	49,323	121,075	128,836	-	200,611	319,148	-	161,950	185,734
RESTATEMENT (NOTE 22)	-	-	-	-	-	-	-	-	-
FUND BALANCES, June 30, 2005	49,323	121,075	128,836	-	200,611	319,148	-	161,950	185,734
FUND BALANCES, June 30, 2006	$ 428	104,205	145,999	-	420,922	621,047	-	351,315	376,627

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - By Fund Type - Non-major Governmental Funds - continued

AS OF JUNE 30, 2006

		Debt Service Funds			
		Debt Service (2002C HIF)	Debt Service (2002D CHAT)	Total Debt Service Funds	Total-Other Governmental Funds
REVENUES:					
User and fuel taxes	$	-	-	-	3,711,237
U.S. Department of Transportation		-	-	-	12,495,295
N.M. Department of Human Services		-	-	-	1,753,264
Miscellaneous		-	-	-	4,740
DWI Interlock Device		-	-	-	1,185,849
Interest Revenue		20,129	3,130	1,028,133	2,746,192
TOTAL REVENUES		20 129	3,130	1,028,133	21,896,577
EXPENDITURES:					
Current:					
Operating costs		-	-	-	90,580
Personal services		-	-	-	746,303
Out-of-state travel		-	-	-	40,042
Grants and services		-	-	-	15,979,062
Travel		-	-	-	41,423
Maintenance and repairs		-	-	-	51,047
Supplies		-	-	-	46,980
Contractual services		-	-	-	3,255,984
Other Costs		-	-	-	16,277
Employee Benefits		-	-	-	257,149
Capital outlay		-	-	-	5,684,170
Debt service:		-		-	-
Principal		-	-	38,315,000	38,315,000
Interest and other charges		1,709,524	254,825	15,281,093	15,281,093
TOTAL EXPENDITURES		1,709,524	254,825	54,624,226	79,805,110
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		(1,689,395)	(251,695)	(52,567,960)	(57,908,533)
OTHER FINANCING SOURCES (USES):					
Transfers in		1,709,524	254,825	53,545,468	53,545,772
Transfers out		-	-	(100,383)	12,771,805
TOTAL OTHER FINANCING SOURCES (USES)		1,709,524	254,825	53,445,085	66,317,577
NET CHANGES IN FUND BALANCES		20,129	3,130	877,125	8,409,044
FUND BALANCES, June 30, 2005		62,817	12,436	1,241,930	65,028,409
RESTATEMENT (NOTE 2)		-	-	-	418,094
FUND BALANCES, June 30, 2005		62,817	12,436	1,241,930	65,446,503
FUND BALANCES, June 30, 2006	$	82,946	15,566	2,119,055	73,855,547

AS OF JUNE 30, 2006

	CAPITAL PROJECTS FUND							
	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance From Final Budget Over (Under)
	Original	Final						
Expenditures for 2004 multi-year projects								
Capital outlay	$ 2,000,000	2,000,000	-	-	-	1,804,124	1,804,124	195,876
Expenditures for 2001 multi-year projects								
Capital outlay	2,238,000	2,197,574	-	-	-	17,350	17,350	2,180,224
Expenditures for 2000 multi-year projects								
Capital outlay	2,094,300	2,828,452	-	2,129	2,129	185,364	187,493	2,640,959
Expenditures for 2006 multi-year projects								
Capital outlay	15,250,000	15,250,000	1,000,000	1,911,978	2,911,978	-	2,911,978	12,338,022
Total expenditures					$ 2,914,107			

YEAR ENDED JUNE 30, 2006

		STATE INFRASTRUCTURE BANK			
		Budgeted Amounts		Actual Amounts	Variance
		Original	Final	(Budgetary Basis)	Over (Under)
REVENUES:					
Interest	$	-	-	460,073	460,073
TOTAL REVENUES		-	-	460,073	460,073
REBUDGETED CASH		15,311,281	15,311,281	15,311,281	-
TOTAL BUDGETED REVENUES	$	15,311,281	15,311,281	15,771,354	460,073
EXPENDITURES:					
Contractual services	$	12,224,326	12,224,326	-	12,224,326
TOTAL BUDGETED EXPENDITURES	$	12,224,326	12,224,326	-	12,224,326

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE AND DEBT SERVICE FUNDS			
	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	(Budgetary Basis)	Over (Under)
REVENUES:				
Federal funds	$ 315,491,700	440,796,383	324,766,138	(116,030,245)
Other state funds	407,278,300	436,413,842	63,825,274	(372,588,568)
State General Fund	706,000	706,000	431,518,733	430,812,733
TOTAL REVENUES	723,476,000	877,916,225	820,110,145	(57,806,080)
PRIOR YEAR ENCUMBRANCE CARRY FORWARD	228,086,494			
	$ 951,562,494			

This schedule contains budget to actual data on all major and nonmajor Special Revenue and Debt Service Funds of the Department.

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
TOTAL ANNUAL BUDGETED EXPENDITURES	$ 723,476,000	1,106,002,719	1,039,227,741	66,774,978	1,106,002,719	-	1,106,002,719	-
Multi-year Budgets - Special Revenue Funds:								
Expenditures for 2006 multi-year projects:								
Severance tax -								
Contractual services	1,921,000	14,890,000	723,232	13,516,768	14,240,000	-	14,240,000	650,000
General fund -								
Contractual services	-	16,072,810	1,755,181	13,070,243	14,825,424	-	14,825,424	1,247,386
Total expenditures for 2006 multi-year budgeted projects	1,921,000	30,962,810	2,478,413	26,587,011	29,065,424	-	29,065,424	1,897,386
Expenditures for 2005 multi-year projects:								
Severance tax -								
Contractual services	19,111,750	23,764,750	2,266,585	14,494,334	16,760,919	-	16,760,919	7,003,831
General fund -								
Contractual services	10,743,657	11,791,221	2,240,810	9,172,159	11,412,969	-	11,412,969	378,252
Total expenditures for 2005 multi-year budgeted projects	29,855,407	35,555,971	4,507,395	23,666,493	28,173,888	-	28,173,888	7,382,083
Expenditures for 2004 multi-year projects:								
Severance tax -								
Contractual services	7,961,349	7,665,349	1,575,683	4,247,456	5,823,139	1,595,988	7,419,127	246,222
General fund -								
Contractual services	10,451,228	10,403,665	632,996	4,169,701	4,802,697	2,034,445	6,837,142	3,566,523
Total expenditures for 2004 multi-year budgeted projects	18,412,577	18,069,014	2,208,679	8,417,157	10,625,836	3,630,433	14,256,269	3,812,745

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
Expenditures for 2003 multi-year projects:								
Severance tax -								
Contractual services	$ 9,342,100	9,262,100	1,263,965	2,631,322	3,895,287	5,170,759	9,066,046	196,054
Total expenditures for 2003 multi-year budgeted projects	9,342,100	9,262,100	1,263,965	2,631,322	3,895,287	5,170,759	9,066,046	196,054
Expenditures for 2002 multi-year projects:								
Severance tax -								
Contractual services	347,500	345,469	176,900	9,797	186,697	158,771	345,468	1
Total expenditures for 2002 multi-year budgeted projects	347,500	345,469	176,900	9,797	186,697	158,771	345,468	1
Expenditures for 2001 multi-year projects:								
Severance tax -								
Contractual services	6,910,784	6,848,528	528,567	602,610	1,131,177	5,563,165	6,694,342	154,186
General fund -								
Contractual services	2,577,500	2,542,129	169,088	289,398	458,486	1,948,068	2,406,554	135,575
Total expenditures for 2001 multi-year budgeted projects	9,488,284	9,390,657	697,655	892,008	1,589,663	7,511,233	9,100,896	289,761
Expenditures for 2000 multi-year projects:								
Severance tax -								
Contractual services	5,677,682	5,478,958	-	-	-	5,213,907	5,213,907	265,051
Total expenditures for 2000 multi-year budgeted projects	5,677,682	5,478,958	-	-	-	5,213,907	5,213,907	265,051

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
Expenditures for 1999 multi-year projects:								
Severance tax -								
Contractual services	$ 8,985,435	7,964,561	-	-	-	7,946,543	7,946,543	18,018
Total expenditures for 1999 multi-year budgeted projects	$ 8,985,435	7,964,561	-	-	-	7,946,543	7,946,543	18,018
TOTAL ANNUAL AND MULTI-YEAR BUDGETED EXPENDITURES			$ 1,050,560,748		1,179,539,514			

SUPPLEMENTAL SCHEDULES

AS OF JUNE 30, 2006

Chapter	Laws	Bonds Appropriated	Bonds Sold	Amounts AIPP	Funds Reauthorized	Funds Reverted	Bond Balance After Reauthorization	Amount Received	Expended To Date	Balance Available
148	1994	$ 50,000	50,000	-	-	-	50,000	49,950	49,950	50
2	1999	5,880,821	4,719,721	-	-	(441,694)	4,278,027	4,225,479	4,225,479	52,548
23	2000	7,138,284	7,138,284	-	-	(316,117)	6,822,167	6,655,896	6,655,895	166,272
23	2001	55,000	55,000	-	-	(8,678)	46,322	45,203	45,203	1,119
110	2002	9,491,910	9,491,910	-	-	(953)	9,490,957	6,722,258	6,762,258	2,728,699
429	2003	7,632,100	7,632,100	(1,250)		(51,495)	7,579,355	4,464,870	4,755,519	2,823,836
126	2004	23,518,750	23,518,750	-	-	-	23,518,750	8,677,092	9,629,597	13,889,153
347	2005	14,107,000	14,107,000	-	-	-	14,107,000	481,169	723,232	13,383,768
111	2006	22,429,900	22,429,900	-	-	-	22,429,900	-	-	22,429,900
		$ 90,303,765	89,142,665	(1,250)	-	(818,937)	88,322,478	31,321,917	32,847,133	55,475,345

See Notes to Financial Statements.

AS OF JUNE 30, 2006

		Appropriation Amount	Expenditures Inception to 6/30/2006	Encumbrance Balance as of 6/30/2006	Reappropriation Amount	Reversion Amount	Balance as of 6/30/2006
Special Revenue Funds							
Laws of 1991, Chapter 10	$	250,000	-	-	-	-	250,000
* Laws of 1994, State House Memorial 110		11,505,000	9,386,782	-	-	2,118,218	-
* Laws of 1994, Senate Memorial 130		11,278,000	9,179,460	-	-	2,098,540	-
Laws of 2000, Chapter 23		2,577,500	2,117,156	289,398	-	35,370	135,576
Laws of 2003, Chapter 385		975,500	407,460	550,000	-	-	18,040
Laws of 2003, Chapter 429		4,631,200	659,981	3,619,701	-	47,563	303,955
Laws of 2004, Chapter 126		4,830,728	925,134	3,627,343	-	-	278,251
Laws of 2004, Chapter 126		5,812,930	315,676	5,397,253	-	-	100,001
		41,860,858	22,991,649	13,483,695	-	4,299,691	1,085,823
Capital Projects Funds							
Laws of 1999, Chapter 2		2,943,000	2,820,052	2,129	-	114,548	6,270
Laws of 2004, Chapter 126		2,000,000	1,804,124	-	-	-	195,876
		4,943,000	4,624,176	2,129	-	114,548	202,146
Total all fund types	$	46,803,858	27,615,825	13,485,824	-	4,414,239	1,287,969

* Note: State House and Senate Memorials are directions on how appropriated monies should be spent. They are not laws.

♦ *Special Revenue Fund*

Under the Laws of 1991, Chapter 10, the Department was directed to expend $250,000 from the State Road Fund to conduct a study of financing options and evaluation of environmental issues relating to a proposed rapid rail system.

Under the Laws of 1994, House Memorial 110 and Senate Memorial 130, the Department was directed to expend $11,505,000 and $11,278,000, respectively, from the State Road Fund for certain infrastructure improvements.

Under the Laws of 2000, Chapter 23, the Department was directed to expend $975,000 from the State Road Fund to conduct a study of financing options and evaluation of environmental issues relating to a proposed rapid rail system.

Under the Laws of 2003, Chapter 385, the Department was appropriated $975,800 from the State of New Mexico General Fund for certain infrastructure projects and improvements. Any unexpended or unencumbered balance remaining at the end of the 2008 fiscal year will revert to the State General Fund.

Under the Laws of 2003, Chapter 429, the Department was appropriated $4,631,200 from the State of New Mexico General Fund for certain infrastructure projects and improvements. Any unexpended or unencumbered balance remaining at the end of the 2008 fiscal year will revert to the State General Fund.

♦ *Capital Projects Fund*

Under the Laws of 1999, Chapter 2, the Department was appropriated $2,043,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2003 fiscal year was reverted to the State Road Fund. Under the laws of 2004, Chapter 126, the appropriation end date was extended for one capital project that totaled $712,000 through the end of the 2009 fiscal year. Any unexpended or unencumbered balance remaining at the end of the 2009 fiscal year for this project will revert to the State Road Fund.

Under the Laws of 2003, Chapter 429, the Department was appropriated $4,500,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2008 fiscal year will revert to the State Road Fund.

AS OF JUNE 30, 2006

Account Title	CAS Number		Reconciled Balance	Bank Balance
Cash on Deposit with State Treasurer:				
Road Fund - General	201	$	62,149,109	96,103,299
Road Fund - Payroll	788		294,229	342,842
Highway Department - WIPP Project	431		30,262,627	30,262,627
Rubberized Asphalt	820		1,921,035	1,921,035
Highway Infrastructure Fund	202		6,036,746	6,036,746
Local Government Fund	203		20,723,524	20,723,524
Traffic Safety	208		2,098,477	2,098,377
Aviation Fund	205		626,606	626,606
Motorcycle Training Fund	206		78,661	78,661
DWI Prevention Fund	207		573,762	573,762
DWI Interlock Fund	896		1,185,849	1,185,849
CHAT-2001A Bond Project-Hyway	006		9,343,403	9,357,194
1993 Bond Projects	394		1,460,095	1,460,095
State Infrastructure Bank	893		10,765,589	10,766,044
1999 CHAT Bond Projects	430		219,157	219,157
1998A CHAT Debt Service	548		126,596	126,596
1999 CHAT Debt Service	434		122,855	122,855
2000A CHAT Bond Projects	345		4,527	4,527
2000A CHAT Debt Service	432		182,476	182,476
2001A CHAT Debt Service	007		231,021	231,021
2002A CHAT Bond Projects	368		139,960	139,960
Cash Debt Service-CHAT-2002A	547		74,724	74,724
Cash Debt Service-WIPP-2002B	750		99,174	99,174
2002C HIF Bond Projects	361		1,165,800	1,164,997
Cash Debt Service-HIF-2002C	363		55,641	55,641
Cash-Bond Proj.-CHAT-2002D	115		670,506	670,506
Cash-Debt Service-CHAT-2002D	187		11,453	11,453
Total Cash on Deposit with State Treasurer			150,623,602	$ 184,639,748

AS OF JUNE 30, 2006

Account Title		Reconciled Balance
NMFA Loan Proceeds in money market mutual funds		
NMFA Loan Proceeds in money market mutual funds	$	463,107,992
Petty Cash Checking Accounts:		
Petty Cash Funds:		
District 1		500
District 2		500
District 3		500
District 4		500
District 5		500
District 6		500
General Office (Santa Fe)		100
Total Petty Cash Checking Accounts		3,100
Total Cash		613,734,694
Less Unrestricted		91,680,839
Restricted	$	522,053,855

Supplemental Schedule of State Road Fund User and Fuel Taxes

YEAR ENDED JUNE 30, 2006

Gasoline Excise Taxes	$ 109,723,481
Motor Vehicle Registration Fees	71,469,931
Special Fuel Excise Taxes	97,126,880
Vehicle Transaction Fees	1,609,762
Drivers License Fees	3,943,990
Oversize/Overweight Permit Fees	4,387,102
Public Regulation Commission	3,676,516
Trip (Mileage) Tax	8,576,084
Weight/Distance Taxes	76,452,805
Leased Vehicle Gross Receipts Taxes	5,143,492
Tire Recycling Fees	1,733,999
Subtotal Pledged Revenues	383,844,042
Miscellaneous Fees	2,631,621
	$ 386,475,663

See Notes to Financial Statements.

THIS PAGE INTENTIONALLY LEFT BLANK

AS OF JUNE 30, 2006

		1998B-WIPP	1998-CHAT	1999-CHAT	2000-CHAT	2001-CHAT
Gasoline Excise Taxes	$	109,723,481	109,723,481	109,723,481	109,723,481	109,723,481
Motor Vehicle Registration Fees		71,469,931	71,469,931	71,469,931	71,469,931	71,469,931
Special Fuel Excise Taxes		97,126,880	97,126,880	97,126,880	97,126,880	97,126,880
Vehicle Transaction Fees		1,609,762	1,609,762	1,609,762	1,609,762	1,609,762
Driver's License Fees		3,943,990	3,943,990	3,943,990	3,943,990	3,943,990
Oversize/Oversight Permit Fees		4,387,102	4,387,102	4,387,102	4,387,102	4,387,102
Public Regulation Commission Fees		3,676,516	3,676,516	3,676,516	3,676,516	3,676,516
Trip (Mileage) Tax		8,576,084	8,576,084	8,576,084	8,576,084	8,576,084
Weight/Distance Taxs		76,452,805	76,452,805	76,452,805	76,452,805	76,452,805
Leased Vehicle Gross Receipts Taxes		-	-	-	-	-
Tire Recycling Fees		-	-	-	-	-
FHWA Revenues		-	-	-	-	-
SUBTOTAL		376,966,551	376,966,551	376,966,551	376,966,551	376,966,551
Interest on Cash Balances*		1,238,524	1,238,524	1,238,524	1,238,524	1,238,524
TOTAL PLEDGED REVENUES RECEIVED	$	378,205,075	378,205,075	378,205,075	378,205,075	378,205,075

		1998B-WIPP	1998-CHAT	1999-CHAT	2000-CHAT	2001-CHAT
Debt Service Principal Expenditures	$	2,785,000	-	8,920,000	11,700,000	14,785,000
Debt Service Interest Expenditures		1,890,862	1,125,450	2,090,706	4,391,825	7,088,398
TOTAL DEBT SERVICE		4,675,862	1,125,450	11,010,706	16,091,825	21,873,398
DEBT SERVICE COVERAGE		80.88	336.05	34.35	23.50	17.29

*NOTE: In addition to state road fund revenues, pledged revenues on 2004C GRIP include FHWA revenues, tire recyling fees, leased vehicle gross receipts tax, and interest earned in the HIF fund.

2002A-CHAT	2002C-HIF	2002B-WIPP	2002D-CHAT	2004A-CRIP	2004B-CRIP	2004C-CRIP
109,723,481	109,723,481	109,723,481	109,723,481	109,723,481	109,723,481	109,723,481
71,469,931	71,469,931	71,469,931	71,469,931	71,469,931	71,469,931	71,469,931
97,126,880	97,126,880	97,126,880	97,126,880	97,126,880	97,126,880	97,126,880
1,609,762	1,609,762	1,609,762	1,609,762	1,609,762	1,609,762	1,609,762
3,943,990	3,943,990	3,943,990	3,943,990	3,943,990	3,943,990	3,943,990
4,387,102	4,387,102	4,387,102	4,387,102	4,387,102	4,387,102	4,387,102
3,676,516	3,676,516	3,676,516	3,676,516	3,676,516	3,676,516	3,676,516
8,576,084	8,576,084	8,576,084	8,576,084	8,576,084	8,576,084	8,576,084
76,452,805	76,452,805	76,452,805	76,452,805	76,452,805	76,452,805	76,452,805
-	5,143,492	-	-	5,143,492	5,143,492	5,143,492
-	1,733,999	-	-	1,733,999	1,733,999	1,733,999
-	-	-	-	-	-	292,847,438
376,966,551	383,844,042	376,966,551	376,966,551	383,844,042	383,844,042	676,691,480
1,238,524	124,100	1,238,524	1,238,524	1,238,524	1,238,524	1,238,524
378,205,075	383,968,142	378,205,075	378,205,075	385,082,566	385,082,566	677,930,004

2002A-CHAT	2002-HIF	2002B-WIPP	2002D-CHAT	2004A-CRIP	2004B-CRIP	2004C-CRIP
7,180,000	-	7,730,000	-	-	27,940,000	-
2,737,100	1,709,524	1,690,750	254,825	36,216,759	10,038,865	7,868,000
9,917,100	1,709,524	9,420,750	254,825	36,216,759	37,978,865	7,868,000
38.14	224.61	40.15	1,484.18	10.63	10.14	86.16

SINGLE AUDIT

YEAR ENDED JUNE 30, 2006

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Direct Assistance Programs:		
U.S. Department of Energy:		
Waste Isolation Pilot Plant 2004	81.106	$ 27,843,754
Total U.S. Department of Energy		27,843,754
U.S. Department of Transportation:		
Federal Highway Administration highway research, planning and construction (FHWA):		
FHWA Secondary	20.205	107,110,517
FHWA Primary	20.205	73,841,478
FHWA Interstate	20.205	43,731,904
FHWA Urban	20.205	11,242,888
FHWA Other	20.205	43,567,377
		279,494,164
National Highway Traffic Safety Administration (NHTSA):		
Highway Safety Grant	20.600	3,915,027
Fatal Accident Reporting System	20.600	60,257
Occupant Protection Program	20.602	526,771
Safety Incentive Grant for Use of Seatbelts	20.604	363,809
Seatbelt Improvement - Discretionary Innovative	20.604	170,565
Section 164 Transfer Funds	20.608	4,625,176
		9,661,605

YEAR ENDED JUNE 30, 2006

Federal Agency/ Pass-Through Agency	Federal CFDA Number		Federal Participating Expenditures
Direct Assistance Programs - continued:			
U.S. Department of Transportation - continued:			
Federal Aviation Division:			
State Planning	20.106	$	885,097
Federal Transit Administration (FTA):			
Capital Program Grants and Loans	20.500		1,052,867
Metropolitan and State Planning	20.505		183,124
Rural Public Transportation Program	20.509		3,311,164
Specialized Transportation Program	20.513		581,099
			5,128,254
Total U.S. Department of Transportation			295,169,120
Total Direct Assistance Programs			323,012,874
Pass-Through Programs:			
U.S. Department of Health Granted to the New Mexico			
Department of Human Services			
Health Resources and Services Administration:			
Temporary Assistance for Needy Families	93.558		1,753,264
Total Pass-Through Programs			1,753,264
Total Federal Financial Assistance		$	324,766,138

♦ ***General***

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the New Mexico Department of Transportation (Department).

♦ ***Basis of Accounting***

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Department's governmental fund financial statements.

Federal grant revenues collected in advance of the period they are intended to finance expenditures are recorded as deferred revenues, except for the amounts for the State Infrastructure Bank, which are recorded as contributions when they are received. The Department did not receive non-cash assistance from federal sources during the current year.

♦ ***Reconciliation of Federal Awards***

Statement of Revenues, Expenditures and Changes in Fund Balances		
U.S. Department of Transportation	$	295,169,120
U.S. Department of Energy		27,843,754
NM Department of Human Services		1,753,138
Supplemental Schedule of Expenditures, of Federal Awards	$	324,766,138

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*

MEYNERS + COMPANY, LLC
Certified Public Accountants/
Consultants to Business
500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds presented as supplementary information in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2006, as listed in the table of contents, and have issued our report thereon dated December 11, 2006. We also have audited the combined budget comparisons for the special revenue and debt service funds presented as required supplemental information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We noted other findings involving internal control over financial reporting which are described in the accompanying audit findings as 06-1, 05-2, 05-3, 05-4 and 05-6.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of immaterial noncompliance and other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying schedule of findings and questioned costs as items 06-1, 05-2, 05-3, 05-4 and 05-6.

This report is intended solely for the information and use of the Commissioners, the Department, the Office of the State Auditor and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

December 11, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

MEYNERS +
COMPANY, LLC
Certified Public Accountants/
Consultants to Business

500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the compliance of the State of New Mexico Department of Transportation (Department), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Commissioners, the Department, the Office of the State Auditor, and federal award agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

December 11, 2006

YEAR ENDED JUNE 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Department of Transportation (Department).
2. One reportable condition relating to the audit of financial statements of the Department was identified, and is not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the Department were disclosed during the audit.
4. There were no reportable conditions in the internal control over major programs disclosed by the Department.
5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.
6. The auditors' report on compliance for the major federal award programs for the Department expresses an unqualified opinion.
7. The programs tested as the major programs included:

Program	**CFDA #**
Federal Highway Administration Programs (FHWA)	20.205
Waste Isolation Plant 2004	81.106

8. The threshold for distinguishing Types A and B programs was $3,000,000.
9. The Department is considered a low risk auditee.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

06-1 INVENTORY RECONCILIATIONS

Condition: During our test work of inventories for the General Office and Districts, we noted the following:

- There were unresolved variances at year end, identified in the inventory reconciliations for the General Office District 1, District 4, and District 5.

Criteria: Per Section 6-5-2, NMSA 1978, the General Office and Districts must maintain timely and accurate inventory and accounting records that record in detail each item in the inventory, the number of units, cost, date received, and vendor for each purchase. At the end of each fiscal year, inventory of materials and supplies on hand should be counted and reconciled with inventory records of goods on hand. When significant shortages or overages are found, the New Mexico Department of Transportation shall determine the cause(s) and augment internal controls as necessary to control and minimize any future occurrences.

Cause: Lack of sufficient management oversight and proper training of staff to identify and correct variances.

Effect: Significant inventories reported at year end could be inaccurate and non-compliant with Generally Accepted Accounting Principles.

Recommendation: We recommend that the Department review its inventory reconciliation process and strengthen the internal control process.

Management's Response: The Capital Assets unit will continue to work with the districts in identifying and resolving all inventory reconciliation variances. The district business managers and the district engineers will be notified on any unresolved variances. Training will be coordinated by the Capital Assets unit to ensure that all district staff are knowledgeable and familiar with the Department's Model Accounting practices and all applicable policy and procedures pertaining to the Department's inventory assets.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-2 PERSONNEL AND PAYROLL (REPEATED AND MODIFIED)

Condition: During our payroll disbursements test work, we noted the following:

- Three out of forty personnel files did not contain a PERA form.

Criteria: Personnel files must contain complete and current information on employees per State Personnel Act (10-9-1 to 10-9-25 NMSA 1978) and Internal Revenue Service (IRS) Publication 15.

Cause: Lack of sufficient management oversight.

Effect: The Department may not be able to support payroll transactions.

Recommendation: We recommend that the NMDOT put procedures in place to ensure the completeness of personnel files as required.

Management's Response: The Department continues to make progress in this area and procedures will be strengthened to ensure completeness of personnel files.

05-3 GRIP POSTING ERRORS (REPEATED AND MODIFIED), REPORTABLE CONDITION

Condition: During our audit, we noted the following posting errors that were corrected as audit entries:

- Activity for trustee accounts was not posted accurately.
- Cash accounts held at trustee were not reconciled during the course of the year.

Criteria: Accounting transactions should be properly recorded to the correct fund and general ledger account. All accounting transactions must be recorded to ensure completeness of the accounting records.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-3 CRIP POSTING ERRORS (REPEATED AND MODIFIED), REPORTABLE CONDITION - continued

Cause: Insufficient resources allocated to the review process.

Effect: The Department's general ledger was misstated as follows:

- Cash held at trustee was overstated.
- Investment fees were not recorded, and were therefore understated.
- Gains and losses were not recorded, and were therefore understated.
- Transfers between trustee accounts were not recorded.
- Interest receivable was not recorded at year end. As a result, revenue was understated.

Recommendation: The Department should implement improvements in the review function to ensure transactions are being properly recorded to the correct fund and general ledger account.

Management's Response: Staff turnover during FY 06 in the Bond Unit and Accounting Services Manager position were some of the underlying factors contributing towards this finding. The Department, upon being notified of this finding, immediately took efforts to work with the auditors on providing enhanced information and has already taken measures to enhance and strengthen processes in the posting and review functions. The Department will review the feasibility of obtaining services from an Independent Public Accounting firm with Investment Accounting expertise to consult with Department staff, to ensure that all transactions are posted accurately and in accordance with all applicable rules and regulations, and that monthly reviews and reconciliations are performed timely and accurately to detect any potential problems.

05-4 LACK OF SEGREGATION OF DUTIES (REPEATED)

Condition: The Department's Financial Management Information System (FMIS) administrator and the FMIS Contractor are assigned both system and program analyst responsibilities. Also, the program analysts have access to FMIS applications in live operation and thus have access to live data. The duties performed by the IT personnel are not rotated.

Criteria: There should be a separation of duties between program analysts and the system administrator. Programmers should work in a test environment and be denied access to live applications and data. Duties of the IT personnel should be rotated periodically to enhance controls over the IT function.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-4 LACK OF SEGREGATION OF DUTIES (REPEATED) - continued

Cause: Lack of sufficient staff to provide for segregation.

Effect: The Department and the contractor, FMIS system administrators/programmers, are able to grant themselves the authority needed to the production environment. This could result in accidental or intentional modifications to the application software or live data.

Without rotation, data could be improperly modified and such changes could go unnoticed. Additionally, without rotation, it becomes difficult to maintain efficient operations when there is employee turnover.

Recommendation: We recommend the Information Systems Bureau obtain sufficient staffing to allow proper segregation of duties between system administration and programming duties; programmers should not be allowed to work in production environments; and duties should be rotated.

Management's Response: The Department, along with all state agencies, has changed financial and accounting software; this should not be a finding next year as the Department of Finance and Administration is responsible for software maintenance on the new system (SHARE).

05-6 DISASTER RECOVERY PLAN (REPEATED)

Condition: The Department's Disaster Recovery Plan contains references to a "Hot Site" which has not yet been established. There are no written procedures in place for the following IT functions:

- Preventing the testing of new or revised applications on live data files.
- Development of new applications, as well as modifications of existing applications.
- Formal testing to check the functioning of new applications.
- Day-to-day required functions, such as backing up the system and performing maintenance on user groups.
- Job descriptions and duties of administrators.

Criteria: Details in a Disaster Recovery Plan are necessary to ensure continued operation of mission critical systems in the event of a disaster.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-6 DISASTER RECOVERY PLAN (REPEATED) - continued

Cause: The "Hot Site" referenced in the Department's Disaster Recovery Plan is in the process of being established. IT functions/procedures are "understood" but not written.

Effect: Faced with a major disaster, the Department may be unable to continue its mission critical functions. In cases of administrator turnover, necessary IT procedures may be foregone.

Recommendation: We recommend that the Department continue to take the necessary steps to ensure the plan to establish a "Hot Site" is completed. We recommend that the Department develop written documentation for the IT functions as noted above.

Management's Response: The Department has worked hard on resolving this finding, and testing is underway to establish a "hot site" that we will utilize in case of a data disaster. The Department is establishing the Southern design facility in Las Cruces to be that hot site. We have upgraded the communication line at that facility to a DS3, purchased the same hardware that exists at the General office and have purchased software that mirrors data files and databases to allow recovery of critical systems. The Department's goal is to perform a test of the software by the first quarter of 2007.

C. *FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT*

None

05-1	Receipts -- Cleared
05-2	Personnel and Payroll -- Repeated and Modified
05-3	General Ledger Posting Errors -- Repeated and Modified
05-4	Lack of Segregation of Duties -- Repeated
05-5	Improper or Incorrect User Access -- Cleared
05-6	Disaster Recovery Plan -- Repeated

An exit conference was held with the Department on December 13, 2006. The conference was held at the Department's offices in Santa Fe, New Mexico. In attendance were:

STATE OF NEW MEXICO DEPARTMENT OF TRANSPORTATION

Arthur Gottlieb, Deputy Inspector General
Elias Martinez, Finance Manager
Gary Giron, Deputy Secretary of the Office of Business Support
David Schutz, Commissioner
Larry Viarreal, Finance Bureau Director
Tom Church, Chief of Staff, Office of the Secretary

MEYNERS + COMPANY, LLC

Brandon Hill Haines, CPA, CFE, Assurance Principal
Janet Pacheco-Morton, CPA, CGFM, Manager
Jesse Muniz, Senior

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Independent Auditor.

NEW MEXICO

FINANCE AUTHORITY

Financial Statements

for the Year Ended

June 30, 2007,

and Independent

Auditors' Report

Table of Contents

Year Ended June 30, 2007

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
John A. Carey, Member
Paul Gutierrez, Member
Ron Curry, Member
Ed Garcia, Member
Fred Mondragon, Member
Katherine Miller, Member
Joanna Prukop, Member
Craig Reeves, Member
Jennifer Taylor, Member

Chief Executive Officer
William C. Sisneros

Chief Operating Officer
John Duff

Chief Financial Officer
Joseph Gosline

MEYNERS +
COMPANY, LLC
Certified Public Accountants/
Consultants to Business

500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements, as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2007, and the respective changes in the financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, presented on pages 4 through 15, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and combining and individual fund financial statements of the Authority. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements, including the Agency Funds - Schedule of Changes in Assets and Liabilities. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

September 19, 2007

The New Mexico Finance Authority's (Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

Financial Highlights

- The Authority's government-wide net assets increased by $11,665,335 in fiscal year 2007 from 2006.
- The Authority's total revenues increased by $31,187,930 in fiscal year 2007 from 2006.
- The total cost of all Authority programs was $94,213,879, an increase of $24,050,842 over 2006.

Authority Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the Authority and the Authority provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2007, the PPRF program made approximately 93 loans totaling approximately $211.3 million, compared to 72 loans totaling approximately $177.4 million in FY2006.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2007, the DWRLF made three loans totaling $3.73 million compared to one loan totaling $6.56 million in FY2006. The FY2007 binding commitments numbered six, approximating $23.8 million, compared to four totaling approximately $14.2 million, in FY2006.

Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2007, the Authority Board has approved 15 loans totaling $8.05 million. In FY 2007, the PCCF program made one loan totaling $300,000.

During FY2007, the Authority issued $130.3 million in bonds to provide reimbursement to the Public Projects Revolving Loan Fund and to refund the State Building GRT bonds issued in 2002.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY2007, seven grants closed for a total of $4,281,000, compared to 15 grants totaling $4,182,000 in FY2006.

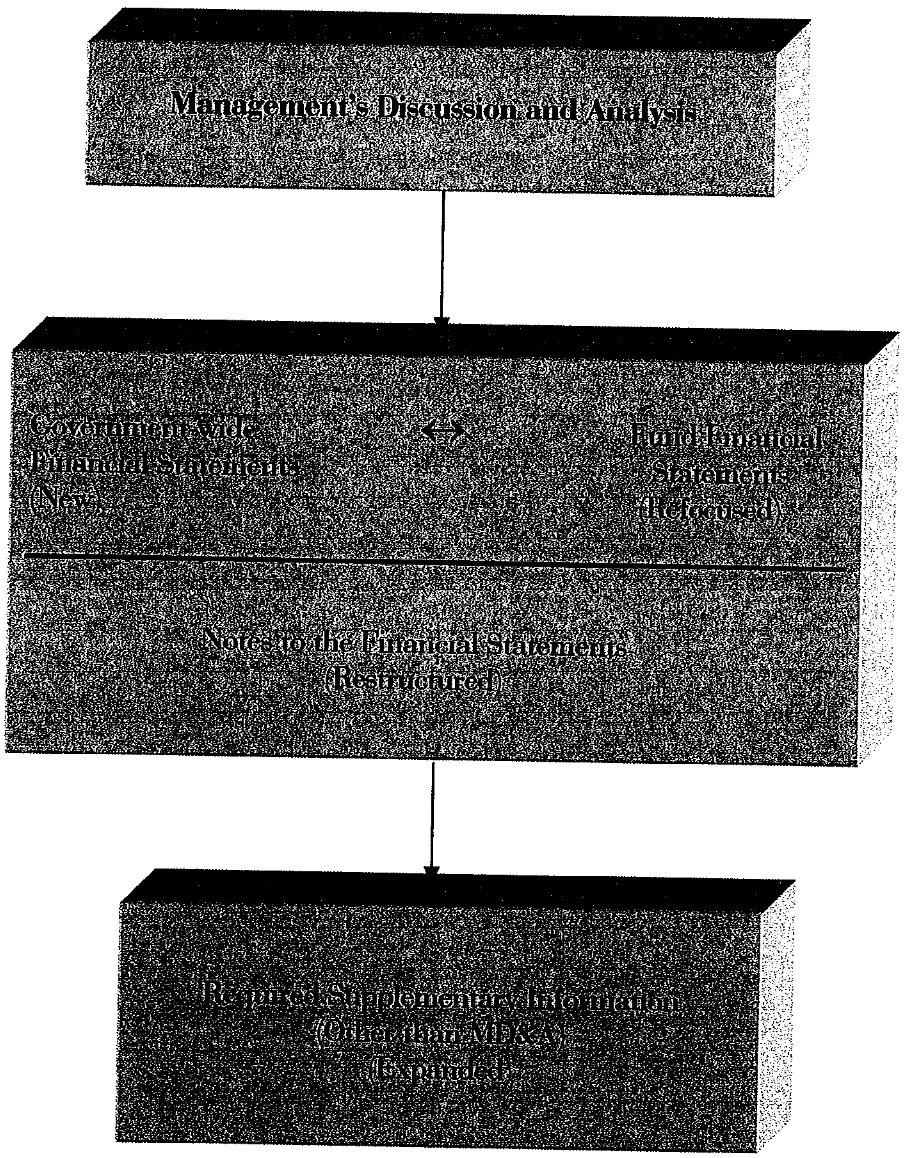
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Using This Annual Report

With the implementation of GASB #34, the presentation of the financial statements is significantly different from the previous general-purpose financial statements. The primary focus in State government's financial statements for the last twenty years or so, (summarized fund type information) has been discarded with implementation of GASB #34. The new focus is on both the Authority (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the Authority is one of several agencies within the State of New Mexico Government, the primary Government focus in this financial report is the Authority and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:

Using This Annual Report - continued



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) 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 consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Authority does not own a material interest in any infrastructure assets and, therefore, is not required to implement this portion of GASB #34.

Government-Wide Financial Statements - continued

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities - All of the Authority's stand-alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the Authority are the Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capital Improvement Financing, Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities - The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Projects Revolving Fund, Federal Drinking Water Loan Revolving Fund, Primary Care Loan Revolving Fund, Behavioral Health Clinic Financing, GRIP Administrative Fund, Child Care Revolving Loan Fund, Local Road Fund, Cigarette Tax Revenue Bond Fund, New Mexico Tax Credits Fund, Energy Efficiency Fund and General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

- Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the costs of providing services including capital costs be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The fund classified as Proprietary or Enterprise funds are the General Operating Fund, Public Projects Revolving Fund, Drinking Water State Revolving Loan Fund, Primary Care Capital Fund, GRIP Administrative Fund, Child Care Revolving Loan Fund, Cigarette Tax Revenue Bond Fund, Local Road Fund, New Mexico Tax Credits Fund, Energy Efficiency Fund and Behavioral Health Clinic Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis of the Authority as a Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2007. FY2007 net assets for Governmental Activities and Business-type Activities were $(75,078,101) and $193,154,850, respectively. Total Authority net assets for fiscal year 2007 are $118,076,749. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2007	2006	2007	2006	2007	2006
Current and other assets	$	**45,024,418**	53,624,471	**84,608,587**	32,697,069	**129,633,005**	86,321,540
Capital and non-current assets		**2,396,886**	3,608,898	**955,034,773**	862,702,716	**957,431,659**	866,311,614
Total assets	$	**47,421,304**	57,233,369	**1,039,643,360**	895,399,785	**1,087,064,664**	952,633,154
Current liabilities	$	**8,187,482**	11,947,088	**154,767,837**	143,670,717	**162,955,319**	155,617,805
Long-term liabilities		**114,311,923**	118,756,977	**691,720,673**	571,846,958	**806,032,596**	690,603,935
Total liabilities		**122,499,405**	130,704,065	**846,488,510**	715,517,675	**968,987,915**	846,221,740
Net Assets:							
Invested in capital assets		**145,503**	232,249	**292,268**	360,882	**437,771**	593,131
Restricted		**(75,223,604)**	(73,702,945)	**187,200,507**	176,161,533	**111,976,903**	102,458,588
Unrestricted		**-**	-	**5,662,075**	3,359,695	**5,662,075**	3,359,695
Total net assets		**(75,078,101)**	(73,470,696)	**193,154,850**	179,882,110	**118,076,749**	106,411,414
Total liabilities and net assets	$	**47,421,304**	57,233,369	**1,039,643,360**	895,399,785	**1,087,064,664**	952,633,154

Changes in Net Assets: The Authority's change in net assets for fiscal year 2007 was an increase of $11,665,335 (Table A-2). A significant portion, twenty-five percent (25%), of the Authority's revenue comes from Tax Revenue. Six percent (6%) comes from other operating grants and contributions, and thirteen percent (13%) from interest and investment income. Twenty-six percent (26%) comes from state general fund appropriations, and charges for services and other revenue comprise thirty percent (30%) of total revenue.

Table A-2
Changes in the Department's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program	6,041,563	845,680	33,949,508	24,051,276	39,991,071	24,896,956
General	23,207,646	21,676,344	42,680,497	28,031,916	65,888,143	49,708,260
Total revenues	29,249,209	22,522,024	76,630,005	52,083,192	105,879,214	74,605,216
Expenses	29,628,373	35,036,050	64,585,506	35,040,919	94,213,879	70,076,969
Net revenues (loss) before transfers and reversions	(379,164)	(12,514,026)	12,044,499	17,042,273	11,665,335	4,528,247
Transfers and reversions	(1,228,241)	21,495	1,228,241	(21,495)	-	-
(Decrease) increase in net assets	(1,607,405)	(12,492,531)	13,272,740	17,020,778	11,665,335	4,528,247
Net assets, beginning of year	(73,470,696)	(60,978,165)	179,882,110	162,861,332	106,411,414	101,883,167
Net assets, end of year	$ (75,078,101)	(73,470,696)	193,154,850	179,882,110	118,076,749	106,411,414

The decline in governmental net assets is the result of certain grant funds (water wastewater grant fund, emergency drought relief, water project fund) "winding down". There are no additional funds being appropriated to these programs and, as grant recipients draw down funds on their grants, there is an on-going decline in the assets (cash). Business-type (enterprise) activities continue to grow in terms of net assets because of the expansion of the PPRF program and the continual growth in the loan portfolio.

Governmental-Type Activities

The Authority's total expenditures for governmental-type activities during the fiscal year 2007 were $29,628,373. The highest area of expenditures, $18,978,452, sixty-four percent (64%), was in the area of grant expense. As noted above, expenditures decreased due to the winding down of certain grant funds. The primary reason for greater revenues in the current year is the increase in State General Fund Appropriations and remaining grant fund draws for the Water Project Fund.

The second highest area of expenditures within the Authority is in the category of debt service.

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $64,585,506. The majority of business-type expenditures, $29,430,731, forty-six percent (46%), was in the area of debt service. As noted above, expenditures and revenues increased due to the expansion of the PPRF program and continued growth in the loan portfolio.

Business Type Activities - continued

Within the operating cost category, salaries and benefits comprised four percent (4%) of total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were six percent (6%) of total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2007, the Authority had invested a total of $292,268 net of depreciation in business-type activities and $145,503 in capital assets for government-type activities. During FY2007, capital outlay expenditures totaled $28,984. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

GASB #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The Authority does not own any infrastructure assets.

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2007, the total amount outstanding was $810.2 million (excluding the $1.520 billion in GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

During the fiscal year, the Authority issued $130.3 million in PPRF debt, primarily to directly fund loans, reimburse the PPRF loan fund for loans already made or to advance refund certain earlier bond issues.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	Aa2
Standard & Poor's	AA
Fitch	AA

Bond Ratings - continued

The Authority received bond ratings increases from both Moody's and Standard and Poor's during FY2006.

Economic Factors and Next Year's Budgets and Rates

The FY2007 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

- General operations of the Authority, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board, funded from the Water Project Fund:
- Administration of the Water Trust Board;
- Water and Wastewater Grant Fund (W/WWGF) program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF;
- The Economic Development Fund, funded from administration fees and cigarette tax revenue.

The Authority's primary operating budget for FY2007 was $6,649,027, compared to the FY2006 budget of $6,179,829, a 7.6% increase. This was due to the addition of new programs, increased staffing levels, the addition of office space and major upgrades in both computer hardware and software.

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

		Governmental Activities	Business-type Activities	Total
ASSETS:				
Cash and equivalents:				
Unrestricted	$	20,243,985	20,101,488	40,345,473
Restricted		20,819,276	209,977,807	230,797,083
Receivables:				
Tax revenue		800,580	6,130,908	6,931,488
Interest		7,634	5,526,729	5,534,363
Grant and other		731,312	6,301,546	7,032,858
Due from other funds (Note 5) [Internal Balances]		-	1,139,242	1,139,242
Administrative fees receivable		55	130,206	130,261
Loans receivable, net of allowance (Note 3)		2,421,576	687,422,802	689,844,378
Securities (Note 4)		-	10,609,203	10,609,203
Restricted asset - escrow		-	83,593,073	83,593,073
Capital Assets, net of depreciation (Note 7)		145,503	292,268	437,771
Deferred costs, net of accumulated amortization		2,251,383	8,367,006	10,618,389
Other assets		-	51,082	51,082
TOTAL ASSETS	$	47,421,304	1,039,643,360	1,087,064,664
LIABILITIES:				
Accounts payable and accrued liabilities	$	145,326	905,360	1,050,686
Accrued payroll		9,816	69,287	79,103
Compensated absences (Note 13)		-	192,088	192,088
Accrued interest		667,838	2,179,331	2,847,169
Debt service payable		23,703	43,601,688	43,625,391
Notes payable (Note 9)		1,855,346	-	1,855,346
Line of Credit (Note 10)		-	31,338,974	31,338,974
Funds held for others		-	74,937,419	74,937,419
Due to other state agencies (Note 5)		-	1,739,664	1,739,664
Due to other funds [Internal Balances]		1,139,242	-	1,139,242
Bonds payable, current, net (Note 8)		6,051,000	31,143,000	37,194,000
Bonds payable, non-current, net of bond discount/premium (Note 8)		112,607,134	660,381,699	772,988,833
TOTAL LIABILITIES		122,499,405	846,488,510	968,987,915
NET ASSETS:				
Invested in capital assets		145,503	292,268	437,771
Restricted for:				
Debt service		(110,576,933)	-	(110,576,933)
Program funds		35,353,329	187,200,507	222,553,836
Unrestricted		-	5,662,075	5,662,075
TOTAL NET ASSETS		(75,078,101)	193,154,850	118,076,749
TOTAL LIABILITIES AND NET ASSETS	$	47,421,304	1,039,643,360	1,087,064,664

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2007

		Governmental Activities	Business-type Activities	Total
EXPENSES:				
Capital financing	$	29,628,373	64,585,506	94,213,879
PROGRAM REVENUES:				
Charges for services		-	27,412,010	27,412,010
Operating grants and contributions		6,041,563	6,537,498	12,579,061
NET PROGRAM EXPENSES		(23,586,810)	(30,635,998)	(54,222,808)
GENERAL REVENUES:				
Governmental gross receipts and gross receipts taxes		-	34,033,375	34,033,375
Investment earnings		2,715,241	8,647,122	11,362,363
State General Fund Appropriations		20,492,405	-	20,492,405
TOTAL GENERAL REVENUES		23,207,646	42,680,497	65,888,143
TRANSFERS		(1,228,241)	1,228,241	-
CHANGE IN NET ASSETS		(1,607,405)	13,272,740	11,665,335
NET ASSETS, BEGINNING OF FISCAL YEAR		(73,470,696)	179,882,110	106,411,414
NET ASSETS, END OF FISCAL YEAR	$	(75,078,101)	193,154,850	118,076,749

See Notes to Financial Statements.

AS OF JUNE 30, 2007

		Economic Development Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Unrestricted:									
Cash and cash equivalents	$	3,411,361	5,925,291	6,143,689	46,012	971,241	1,349,666	2,396,725	20,243,985
Receivables:									
Tax receivable		-	172,871	590,000	-	-	-	37,710	800,581
Interest		-	-	-	-	-	-	7,634	7,634
Other receivables		-	-	-	731,312	56	-	-	731,368
Loans receivable		1,724,445	-	-	-	190,131	-	507,000	2,421,576
		5,135,806	6,098,162	6,733,689	777,324	1,161,428	1,349,666	2,949,069	24,205,144
Restricted:									
Cash and cash equivalents held for others by trustee:									
Debt service		-	-	-	-	-	-	644,085	644,085
Bond reserve		-	220,940	-	1,283,486	-	-	-	1,504,426
Investments		-	-	-	-	6,472,367	12,198,398	-	18,670,765
TOTAL ASSETS	$	5,135,806	6,319,102	6,733,689	2,060,810	7,633,795	13,548,064	3,593,154	45,024,420
LIABILITIES:									
Accounts payable	$	4,345	-	-	-	63,359	2,633	84,807	155,144
Debt service payable		-	-	-	-	-	-	23,703	23,703
Notes payable		-	1,855,346	-	-	-	-	-	1,855,346
Due to other funds		1,103,063	-	-	-	23,864	7,202	5,113	1,139,242
TOTAL LIABILITIES		1,107,408	1,855,346	-	-	87,223	9,835	113,623	3,173,435
FUND BALANCES:									
Reserved for debt service		-	-	6,733,689	2,060,810	-	-	714,554	9,509,053
Unreserved:									
Special revenue funds		4,028,398	4,463,756	-	-	7,546,572	13,538,229	2,764,977	32,341,932
TOTAL FUND BALANCES		4,028,398	4,463,756	6,733,689	2,060,810	7,546,572	13,538,229	3,479,531	41,850,985
TOTAL LIABILITIES AND FUND BALANCES	$	5,135,806	6,319,102	6,733,689	2,060,810	7,633,795	13,548,064	3,593,154	45,024,420

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2007

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	41,850,985
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
The cost of capital assets is		257,677
Accumulated depreciation is		(112,174)
Total capital assets, net of depreciation		145,503
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds, amortized over the life of the respective bond. Deferred costs, net, are		2,251,383
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, net of premium of $ 2,071,134		(118,658,134)
Accrued interest payable		(667,838)
Total long-term and other liabilities		(119,325,972)
Net assets of governmental activities (Statement of Net Assets)	$	(75,078,101)

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2007

	Economic Development Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	$ -	-	-	-	6,041,563	-	-	6,041,563
Interest on loans	235,806	-	-	-	-	-	37,298	273,104
Interest on investments	-	213,206	385,213	125,075	565,569	1,013,343	139,731	2,442,137
Other revenue	-	-	-	-	282	-	-	282
TOTAL REVENUES	235,806	213,206	385,213	125,075	6,607,414	1,013,343	177,029	8,757,086
EXPENDITURES:								
Current:								
Administrative fee	-	-	43,275	152,756	-	-	15,894	211,925
Professional services	117,887	6,731	-	44,930	151,650	3,304	13,964	338,466
Salaries and fringe benefits	174,599	-	-	-	187,768	83,261	50,790	496,418
In-state travel	8,222	-	-	-	4,993	934	2,199	16,348
Out-of-state travel	6,949	-	-	-	-	-	-	6,949
Maintenance and repairs	1,448	-	-	-	1,371	769	493	4,081
Operating costs	49,800	-	-	-	40,894	23,800	14,473	128,967
Grant expenses	-	-	-	-	10,064,455	8,875,508	38,489	18,978,452
Capital outlay	12,000	-	-	-	9,187	3,192	4,605	28,984
Debt service - principal	-	-	1,380,000	4,445,000	-	-	1,107,000	6,932,000
Debt service - interest	-	-	1,436,475	1,200,135	-	-	1,446,560	4,083,170
TOTAL EXPENDITURES	370,905	6,731	2,859,750	5,842,821	10,460,318	8,990,768	2,694,467	31,225,760
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(135,099)	206,475	(2,474,537)	(5,717,746)	(3,852,904)	(7,977,425)	(2,517,438)	(22,468,674)
OTHER FINANCING SOURCES (USES):								
State General Fund appropriations	4,900,000	714,128	6,090,000	6,835,217	-	-	1,953,059	20,492,404
Transfers (to) from other funds	-	120,238	(4,240,086)	489,381	(1,039)	-	2,403,265	(1,228,241)
Transfers (to) other state agencies	-	(94,150)	(2,019,029)	(1,806,503)	-	-	(848,752)	(4,768,434)
NET OTHER FINANCING SOURCES (USES)	4,900,000	740,216	(169,115)	5,518,095	(1,039)	-	3,507,572	14,495,729
NET CHANGE IN FUND BALANCES	4,764,901	946,691	(2,643,652)	(199,651)	(3,853,943)	(7,977,425)	990,134	(7,972,945)
FUND BALANCES, June 30, 2006	(736,503)	3,517,065	9,377,341	2,260,461	11,400,515	21,515,654	2,489,397	49,823,930
FUND BALANCES, June 30, 2007	$ 4,028,398	4,463,756	6,733,689	2,060,810	7,546,572	13,538,229	3,479,531	41,850,985

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2007

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$	(7,972,945)
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 decrease (increase) in the liabilities for the fiscal year was:		
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities, these payments are reported as a reduction of the liability. In the current period, these principal payment amounts were		6,932,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was:		39,709

YEAR ENDED JUNE 30, 2007

Change from prior year in amortization of bond issuance costs:		
Deferred issuance costs FY06 (p. 17 PY)	$ 2,869,649	
Deferred issuance costs FY07 (p. 17 CY)	2,251,383	
		(618,266)
Change from prior year in amorization of bond premium/discount:		
Amortization of bond premium/discount FY06 (p. 65 PY)	2,169,977	
Amortization of bond premium/discount FY07 (p. 70 CY)	2,071,134	
		98,843
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 were:		
Capital outlay	28,984	
Depreciation expense	(46,860)	
Excess of depreciation expense over capital outlay		(17,876)
Decrease in capital assets		(68,870)
Change in net assets of governmental activities (Statement of Activities)		$ (1,607,405)

AS OF JUNE 30, 2007

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund
ASSETS:					
Current:					
Cash and cash equivalents	$ 446,105	10,013,692	6,060,246	1,538,067	-
Receivables:					
Tax revenue	-	6,107,009	3,460	-	20,439
Interest	-	5,433,651	91,241	-	-
Grant and other	-	3,085,197	2,158,931	1,057,418	-
Due from other state agencies	-	-	-	-	-
Due from other funds	1,777,305	-	-	-	-
Administrative fees receivable	-	-	10,205	119,833	-
Total current assets	2,223,410	24,639,549	8,324,083	2,715,318	20,439
Loans receivable, net of allowance	-	661,146,524	21,571,511	-	4,303,779
Securities	-	10,609,203	-	-	-
Restricted assets - cash and cash equivalents	-	192,139,790	11,403,224	-	3,279,427
Escrow	-	83,593,073	-	-	-
Depreciable property and equipment, net	85,713	116,838	20,995	58,853	1,223
Deferred charges	-	8,367,006	-	-	-
Other assets	51,082	-	-	-	-
TOTAL ASSETS	$ 2,360,205	980,611,983	41,319,813	2,774,171	7,604,868
LIABILITIES:					
Accounts payable and other liabilities	$ 23,685	722,853	150,575	5,618	256
Accrued payroll, fringe benefits and compensated absences	210,736	34,590	6,528	6,464	868
Accrued interest payable	-	2,157,520	-	-	-
Debt service payable	-	43,335,916	198,752	-	59,800
Funds held for others	-	74,268,792	395,550	-	22,312
Due to other state agencies	34,757	-	1,704,907	-	-
Due to other funds	-	285,703	28,050	25,597	42,350
Line of Credit		31,338,974			
Bonds payable, current, net	-	31,018,000	-	-	-
Bonds payable, noncurrent, net	-	658,131,699	-	-	-
TOTAL LIABILITIES	269,178	841,294,047	2,484,362	37,679	125,586
NET ASSETS:					
Invested in capital assets	85,713	116,838	20,995	58,853	1,223
Restricted for:					
Program funds	-	139,201,098	38,814,456	-	7,478,059
Unrestricted	2,005,314	-	-	2,677,639	-
TOTAL NET ASSETS	2,091,027	139,317,936	38,835,451	2,736,492	7,479,282
TOTAL LIABILITIES AND NET ASSETS	$ 2,360,205	980,611,983	41,319,813	2,774,171	7,604,868

See Notes to Financial Statements.

Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	NM Tax Credits	Energy Efficiency	Total
122,025	-	1,921,353	-	-	-	20,101,488
-	-	-	-	-	-	6,130,908
1,837	-	-	-	-	-	5,526,729
-	-	-	-	-	-	6,301,546
-	-	-	-	-	-	-
-	-	-	-	-	-	1,777,305
168	-	-	-	-	-	130,206
124,030	-	1,921,353	-	-	-	39,968,182
400,988	-	-	-	-	-	687,422,802
-	-	-	-	-	-	10,609,203
16,499	264,457	-	2,874,410	-	-	209,977,807
-	-	-	-	-	-	83,593,073
2,197	1,574	1,369	-	2,455	1,051	292,268
-	-	-	-	-	-	8,367,006
-	-	-	-	-	-	51,082
543,714	266,031	1,922,722	2,874,410	2,455	1,051	1,040,281,423
721	310	540	-	660	142	905,360
494	199	772	-	724	-	261,375
-	-	-	21,811	-	-	2,179,331
7,220	-	-	-	-	-	43,601,688
765	250,000	-	-	-	-	74,937,419
-	-	-	-	-	-	1,739,664
8,626	71,538	1,429	-	164,531	10,239	638,063
						31,338,974
-	-	-	125,000	-	-	31,143,000
-	-	-	2,250,000	-	-	660,381,699
17,826	322,047	2,741	2,396,811	165,915	10,381	847,126,573
2,197	1,574	1,369	-	2,455	1,051	292,268
523,691	(57,590)	1,036,012	215,162	-	(10,381)	187,200,507
-	-	882,600	262,437	(165,915)	-	5,662,075
525,888	(56,016)	1,919,981	477,599	(163,460)	(9,330)	193,154,850
543,714	266,031	1,922,722	2,874,410	2,455	1,051	1,040,281,423

YEAR ENDED JUNE 30, 2007

		Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund
OPERATING REVENUES:						
Tax revenue	$	-	34,033,375	-	-	-
Federal grant revenue		-	-	6,537,498	-	-
Administrative fees		1,522,755	-	34,397	2,359,916	-
Interest on loans		-	23,156,489	323,506	-	-
Interest on investments		58,082	7,329,051	763,246	83,683	208,344
TOTAL OPERATING REVENUES		1,580,837	64,518,915	7,658,647	2,443,599	208,344
OPERATING EXPENSES:						
Grant expense		-	258,678	-	-	-
Bond issuance costs		-	450,454	-	-	-
Administrative fees		-	137,250	-	-	-
Professional services		96,079	1,616,730	49,116	192,046	92,287
Salaries and fringe benefits		455,823	1,211,554	219,040	307,810	28,698
In-state travel		3,085	24,259	4,998	11,001	280
Out of state travel		2,564	7,322	6,572	13,610	-
Utilities		-	-	-	-	4
Maintenance and repairs		3,437	10,238	5,324	2,890	262
Supplies		29,722	100	3,243	5,759	244
Operating costs		96,323	271,606	119,244	116,495	6,088
Depreciation		21,924	22,785	12,239	17,352	167
Debt service - interest expense		-	29,294,129	-	-	-
TOTAL OPERATING EXPENSES		708,957	33,305,105	419,776	666,963	128,030
OPERATING INCOME (LOSS)		871,880	31,213,810	7,238,871	1,776,636	80,314
NON-OPERATING REVENUES (EXPENSES):						
Miscellaneous revenue		-	-	-	-	-
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS		871,880	31,213,810	7,238,871	1,776,636	80,314
TRANSFERS:						
Transfers in (out)		(392,988)	1,348,480	-	(990,500)	-
Transfers from (to) other state agencies		-	(2,386,518)	(3,008,527)	-	-
Transfers (to) local governments		-	(23,562,228)	-	-	-
TOTAL TRANSFERS		(392,988)	(24,600,266)	(3,008,527)	(990,500)	-
INCREASE (DECREASE) IN NET ASSETS		478,892	6,613,544	4,230,344	786,136	80,314
TOTAL NET ASSETS, June 30, 2006		1,612,135	132,704,392	34,605,107	1,950,356	7,398,968
TOTAL NET ASSETS, June 30, 2007	$	2,091,027	139,317,936	38,835,451	2,736,492	7,479,282

Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	NM Tax Credits	Energy Efficiency	Total
-	-	-	-	-	-	34,033,375
-	-	-	-	-	-	6,537,498
1,246	-	-	-	-	-	3,918,314
13,701	-	-	-	-	-	23,493,696
5,359	11,902	48,811	138,644	-	-	67,982,883
20,306	11,902	48,811	138,644	-	-	135,965,766
-	-	-	-	-	-	258,678
-	-	-	-	-	-	450,454
-	-	-	-	-	-	137,250
35,948	11,406	2,252	184	79,143	1,788	2,176,979
12,141	6,045	5,648	-	65,381	4,852	2,316,992
442	272	204	-	1,746	22	46,309
-	56	258	-	-	-	30,382
2	2	-	-	13	-	21
32	-	106	-	512	76	22,877
486	223	-	-	-	-	39,777
7,250	3,091	3,295	-	16,332	2,425	642,149
333	167	167	-	333	167	75,634
-	-	-	136,602	-	-	29,430,731
56,634	21,262	11,930	136,786	163,460	9,330	35,628,233
(36,328)	(9,360)	36,881	1,858	(163,460)	(9,330)	100,337,533
-	-	-	-	-	-	-
(36,328)	(9,360)	36,881	1,858	(163,460)	(9,330)	100,337,533
49,445	-	1,000,500	213,304	-	-	1,228,241
-	-	-	-	-	-	(5,395,045)
-	-	-	-	-	-	(23,562,228)
49,445	-	1,000,500	213,304	-	-	(27,729,032)
13,117	(9,360)	1,037,381	215,162	(163,460)	(9,330)	72,608,501
512,771	(46,656)	882,600	262,437	-	-	120,546,349
525,888	(56,016)	1,919,981	477,599	(163,460)	(9,330)	193,154,850

YEAR ENDED JUNE 30, 2007		Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash paid for employee services	$	(772,536)	(6,439,964)	(217,384)	(308,176)
Cash paid to vendors for services		(172,402)	(4,103,658)	(189,293)	(334,385)
Bond issuance costs		-	(450,454)	-	-
Interest expense paid		-	(26,001,106)	-	-
Grants awarded		-	(258,678)	-	-
Tax revenue		-	34,033,375	-	-
Cash received from federal government for revolving loans		-	-	9,198,984	-
Interest income received		58,082	30,485,540	1,086,752	83,683
Administrative fees received		1,522,755	-	34,397	1,255,583
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		635,899	27,265,055	9,913,456	696,705
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:					
Operating transfers, net		(392,988)	1,348,480	-	(990,500)
Cash paid to subrecipients for services		-	(25,948,746)	(3,008,527)	-
Cash provided (used) by funds held for others		-	7,103,532	(1,212,200)	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES		(392,988)	(17,496,734)	(4,220,727)	(990,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Securities		-	1,096,174	-	-
Escrow		-	(23,427,062)	-	-
Loans funded		-	(158,925,077)	(6,145,636)	-
Loan payments received		-	49,591,504	1,903,706	-
Bonds issued		-	130,270,000	-	-
Payment of bonds		-	(46,379,000)	-	-
Debt service		-	9,232,653	42,349	-
Line of credit		-	31,338,974	-	-
Capital asset purchases		(26,252)	(62,129)	(5,760)	(18,427)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		(26,252)	(7,263,963)	(4,205,341)	(18,427)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		216,659	2,504,358	1,487,388	(312,222)
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2006		229,446	199,649,124	15,976,082	1,850,289
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2007	$	446,105	202,153,482	17,463,470	1,538,067
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:	$	478,892	6,613,544	4,230,344	786,136
Adjustments to operating income:					
Depreciation and amortization		21,924	22,785	12,239	17,352
Net capital assets expensed in 2007		40,027	37,072	16,046	23,606
Net transfers		392,988	24,600,266	3,008,527	990,500
(Increase) decrease in prepaids and receivables		(316,713)	(7,143,775)	1,629,326	(1,104,334)
Increase (decrease) in payables and other accrued liabilities		18,781	3,135,163	1,016,974	(16,555)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$	635,899	27,265,055	9,913,456	696,705

See Notes to Financial Statements.

Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	NM Tax Credits Fund	Energy Efficiency Fund	Total
(27,830)	(11,647)	(5,846)	(4,876)	-	(64,657)	(4,710)	(7,857,626)
(57,481)	(34,736)	(14,932)	(3,908)	(184)	(96,556)	-	(5,007,535)
-	-	-	-	-	-	-	(450,454)
-	-	-	-	(137,750)	-	-	(26,138,856)
-	-	-	-	-	-	-	(258,678)
-	-	-	-	-	-	-	34,033,375
-	-	-	-	-	-	-	9,198,984
205,813	17,055	11,902	48,811	138,644	-	-	32,136,282
-	1,246	22,782	-	-	164,531	6,192	3,007,486
120,502	(28,082)	13,906	40,027	710	3,318	1,482	38,662,978
-	49,445	-	1,000,500	213,304	-	-	1,228,241
-	-	-	-	-	-	-	(28,957,273)
4,363	37	-	-	-	-	-	5,895,732
4,363	49,482	-	1,000,500	213,304	-	-	(21,833,300)
-	-	-	-	-	-	-	1,096,174
-	-	-	-	-	-	-	(23,427,062)
(300,000)	-	-	-	-	-	-	(165,370,713)
537,636	30,382	-	-	-	-	-	52,063,228
-	-	-	-	-	-	-	130,270,000
-	-	-	-	(125,000)	-	-	(46,504,000)
24,930	-	-	-	-	-	-	9,299,932
-	-	-	-	-	-	-	31,338,974
(1,655)	(3,061)	(2,006)	(1,800)	-	(3,318)	(1,482)	(125,890)
260,911	27,321	(2,006)	(1,800)	(125,000)	(3,318)	(1,482)	(11,359,357)
385,776	48,721	11,900	1,038,727	89,014	-	-	5,470,321
2,893,651	89,803	252,557	882,626	2,785,396	-	-	224,608,974
3,279,427	138,524	264,457	1,921,353	2,874,410	-	-	230,079,295
80,314	13,117	(9,360)	1,037,381	215,162	(163,460)	(9,330)	13,272,740
167	333	167	167	-	333	167	75,634
265	531	265	264	-	530	264	118,870
-	(49,445)	-	(1,000,500)	(213,304)	-	-	27,729,032
(2,530)	(2,005)	-	-	-	-	-	(6,940,031)
42,286	9,387	22,834	2,715	(1,148)	165,915	10,381	4,406,733
120,502	(28,082)	13,906	40,027	710	3,318	1,482	38,662,978

See Notes to Financial Statements.

AS OF JUNE 30, 2007

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	589,393,873
Expense funds		5,145,512
Bond reserve funds		41,365,202
TOTAL ASSETS	$	635,904,587
LIABILITIES:		
Accounts payable	$	1,659,650
Debt service payable		588,374,034
Funds held for the New Mexico Department of Transportation		45,870,903
TOTAL LIABILITIES	$	635,904,587

See Notes to Financial Statements.

NATURE OF ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act) is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer; the Secretary of the Department of Finance and Administration; the Secretary of Economic Development; the Secretary of Energy, Minerals and Natural Resources; the Secretary of the Environment Department; the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, appoints to the Authority Board, the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

Bonds and other obligations issued by the Authority under the provisions of the Act are not a debt or liability of the state or any subdivision thereof.

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

NATURE OF ORGANIZATION - continued

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, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

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

♦ *Basic Financial Statements*

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Government-wide and Fund Financial Statements*

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

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipt taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. ***Direct expenses*** are those that are clearly identifiable with a specific function or segment. ***Program revenues*** include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as ***general revenues.***

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Government-wide and Fund Financial Statements - continued*

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

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

♦ *Basis of Presentation - Fund Accounting*

The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

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

The following fund types and account groups are used by the Authority:

> ***Governmental Fund Types*** - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

- Economic Development Fund
- State Building Program Cigarette Tax Fund
- State Office Building Financing Fund
- UNM Health Sciences Fund
- Water Project Fund
- Water and Wastewater Project Grant Fund

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

Special Revenue Fund - State Building Program-Cigarette Tax. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation, provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax, with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act, in the amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds, or any payments for refunding or redemption premiums on the bonds, and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Special Revenue Fund - Water and Wastewater Project Grant Fund. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

Special Revenue Fund - Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 Legislative Session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Project Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Special Revenue Fund - Water and Wastewater Planning Grant Fund. The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant must not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

Special Revenue Fund - Emergency Drought Water Program. Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests, the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle. There was an additional bond issuance in September 2002 (2002A).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - Workers' Compensation Financing Fund. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments, for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by the Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the Americans with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint power agreement to accomplish this purpose. A total of $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of calendar quarter, after all current obligations and any sinking fund requirements are met, shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - State Capitol Improvement Financing Fund. The Laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a state building located adjacent to the State Capitol in Santa Fe known as the New Mexico State Library, and for relocation-associated renovations in the State Capitol. A total of $510,000 of revenue bonds were issued on May 17, 1999 and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority, and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of 1) purchasing the National Education Association Building on South Capitol Street in Santa Fe, New Mexico, 2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico, and 3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition, to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may include the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

Debt Service Fund - UNM Health Sciences Fund. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.37% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.79% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Proprietary Fund Types - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business-type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The enterprise funds are as follows:

Enterprise Fund - Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - Primary Care Capital Fund - continued. for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt on the 2004A Bonds for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

Enterprise Fund - Cigarette Tax Revenue Bond – Behavioral Health Capital Fund (BHCF). The BHCF was set up to provide funding for capital projects to non-profit providers to increase health care services to sick and indigent patients. The 2004 Legislature created this fund to provide low cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. The Authority was authorized to issue up to $2,500,000 in bonds, secured by a portion of the net cigarette tax receipts collected by the State and distributed to the Authority. A private placement of $2,500,000 in bonds was issued during fiscal year 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund – Local Transportation Infrastructure Fund (Local Road Fund). This fund was created to provide local government not eligible for Federal funding, whose needs have not been met by the existing Local Government Road Fund, with grants and low cost financial assistance for transportation projects. The program is jointly administered by the Authority and the NMDOT. The NMDOT determines feasibility and priority of recommended projects and the Authority makes loans and grants to the recommended projects. Grants are capped at 25 percent of the project cost.

Enterprise Fund – New Market Tax Credits Fund. During FY 2007 a team comprised of staff from the Authority, the New Mexico Economic Development Department and the City of Albuquerque successfully submitted an application for the federal New Market Tax Credits. The Authority has requested an allocation of $150,000,000. The status of these allocations is generally made in October and it is anticipated that the program would go through a "ramp up" period during the remainder of FY 2008. The fund was created to accumulate costs associated with the application process and other program start-up costs. Ultimately, this program will be accounted for and operated as an LLC separate and distinct from the Authority.

Enterprise Fund – Energy Efficiency Fund. This fund was established as an innovative financing mechanism for state agencies, universities and public schools to fund and implement renovations to existing facilities that will promote renewable energy and other energy efficiency improvements to these facilities. This fund will be jointly administered by the Authority and the Department of Energy, Minerals and Natural Resources. The Authority will issue PPRF bonds that are backed by State GRT and sized to the cash flow energy savings generated from the projects. This program is in a start-up phase and as yet, has not issued any bonds.

The Authority's fiduciary funds are agency funds. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (see Note 14).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Measurement Focus and Basis of Accounting*

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized when the underlying transaction has occurred. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period). For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2007, was $35,559,546.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus and Basis of Accounting - continued*

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted net assets are available for expenses, unrestricted funds are applied first.

♦ *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer is invested by the New Mexico State Treasurer in the "overnight" repurchase program.

For pooled funds on deposit with the New Mexico State Treasurer, interest is credited to the various programs based on the program's average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State, or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ ***Securities***

The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds that are recorded at cost, which approximates market value.

◆ ***Loans***

Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no material loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on non-accrual status.

◆ ***Allowance for Loan Losses***

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. At June 30, 2007, it was management's opinion that all governmental fund receivables, as well as outstanding receivables from the Drinking Water State Revolving Fund, Primary Care Capital Fund and Behavioral Health Capital Fund, were fully collectible and, therefore, no allowance was provided for at June 30, 2007. The Authority has not experienced any losses on its loan portfolio.

◆ ***Restricted Assets***

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Budgets and Budgetary Accounting***

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding, and therefore are not presented in the financial statements. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

♦ ***Capital Assets***

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $5,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

♦ ***Income Taxes***

The Authority is a tax-exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

♦ ***Compensated Absences***

Full-time employees are entitled to fifteen days vacation leave with ten years or less employment with the Authority. Employees with more than ten years receive twenty days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid vacation leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Cash Flows*

For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

♦ *Bond Discounts, Premiums and Issuance Costs*

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

♦ *Fund Equity*

Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements, which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

♦ *Net Assets*

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

Investment in capital assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets that have third-party (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

♦ *Use of Estimates*

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Interfund and Interagency Transactions***

Interfund and interagency transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE*

Funds held for others and short-term investments are held at the trustees in the names of the applicable government entity and the Authority. The repurchase agreements are overnight only. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	108,307,967	108,307,967
The Primary Care Capital Fund held at the State Treasurer's Office		3,197,026	3,197,633
State Treasurer's Office cash held at Bank of Albuquerque in money market accounts		24,646,795	24,646,795
Bank of Albuquerque trust accounts		134,270,636	134,270,636
Reserve on Bond Payable held in Bank of America		274,027	274,027
Wells Fargo operating accounts		446,105	476,236
		271,142,556	271,173,294
Agency Fund:			
Money market accounts invested in Bank of Albuquerque		635,904,587	635,904,587
	$	907,047,143	907,077,881

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

The New Mexico State Treasurer's Office is responsible for ensuring that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool (LGIP) is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States, are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The LGIP investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

The Authority's State Treasurer funds are contained in the New Mexico *GROW* LGIP, and at June 30, 2007 are AAAm rated and valued at $108,307,967, with a 38-day WAM.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The sources of funds are financing program bond proceeds, pledged revenues 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.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its collateral securities that are in the possession of an outside party. The Authority's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in the Authority's name.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Concentration of Credit Risk. Concentration of credit risk is defined as investments of more than 5% in any one issuer.

Interest Rate Risk. Interest rate risk is the risk that interest rate fluctuations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the value of securities held in a collateral portfolio will decline if market interest rates rise. In this event, the financial institution is required to provide additional collateral necessary to comply with New Mexico State Statute. Therefore, funds are not susceptible to interest rate risk as they are all fully collateralized.

3. *LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES*

Loan receivable balances consist of the following at June 30, 2007:

Enterprise funds:	
Public Projects Revolving Loan Fund, net of allowance of $667,848	$ 661,146,524
Drinking Water State Revolving Loan Fund	21,571,511
Primary Care Capital Fund	4,303,779
Behavioral Health Capital Fund	400,988
	687,422,802
Governmental funds:	
Smart Money Loans	1,724,445
C.O.P.S.	507,000
Water Trust Board Loan/Grants	190,131
	2,421,576
	$ 689,844,378

3. *LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued*

♦ ***Public Projects Revolving Loan Fund***

The Public Projects Revolving Loan Fund loans receivable balance at June 30, 2007 is $661,146,524, net of an allowance for loan loss of $667,848, and consists of loans made to various entities.

Terms for the Public Projects Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2007 to June 30, 2008	$	43,234,506	23,599,723	66,834,229
July 1, 2008 to maturity		618,579,866	213,195,458	831,775,324
	$	661,814,372	236,795,181	898,609,553

♦ ***Drinking Water State Revolving Loan Fund***

Terms for the Drinking Water State Revolving loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2007 to June 30, 2008	$	1,070,634	332,186	1,402,820
July 1, 2008 to maturity		20,500,877	2,560,714	23,061,591
	$	21,571,511	2,892,900	24,464,411

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

3. *LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued*

♦ ***Primary Care Capital Fund***

Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

		Principal	Interest	Total
July 1, 2007 to June 30, 2008	$	473,223	137,636	610,859
July 1, 2008 to maturity		3,830,556	557,716	4,388,272
	$	4,303,779	695,352	4,999,130

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

♦ ***Behavioral Health Capital Fund***

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2007 to June 30, 2008	$	31,296	11,027	42,323
July 1, 2008 to maturity		369,692	58,398	428,090
	$	400,988	69,425	470,413

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

3. *LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued*

♦ *"SMART" Money Loans*

The "SMART" Money Loan Participation Program brings the Authority and "SMART Partner Banks" together as partners to share risk while lowering the overall cost of borrowing for the business by the Authority offering below-market rates on its portion of the loan to a New Mexico business. The Authority participates in 49% of the total loan amount. Interest rates range from 5% to 8%.

The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

		Principal	Interest	Total
July 1, 2007 to June 30, 2008	$	-	-	-
July 1, 2008 to maturity		1,724,445	-	1,724,445
	$	1,724,445	-	1,724,445

No allowance for uncollectible loans has been established at this time. The loans are secured by commercial real estate mortgages.

♦ *C.O.P.S.*

The C.O.P.S. loans vary, with interest rates ranging from 4.75% to 6.618%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2007 to June 30, 2008	$	96,000	30,000	126,000
July 1, 2008 to maturity		411,000	92,859	503,859
	$	507,000	122,859	629,859

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

3. *LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued*

♦ ***Water Trust Board Loan/Grants***

The Water Trust Board established a loan element whereby grantees are required to repay 10% of the total amount they receive. Interest rates vary, based on the borrower's ability to repay, but range from 4% to 5%.

The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2007 to June 30, 2008	$	13,020	-	13,020
July 1, 2008 to maturity		177,111	-	177,111
	$	190,131	-	190,131

Allowance has not yet been established as these loans were established late in fiscal year 2007 and repayments have not been made. An appropriate allowance will be made in fiscal year 2008.

4. *SECURITIES*

At June 30, 2007, securities for the Public Project Revolving Fund (PPRF) consisted of $10,354,290 of Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B and 2003B); and $254,913 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resources Bonds have interest rates ranging from 3% to 5.6%, with final maturity on May 1, 2018. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45%, with a final maturity on May 1, 2008. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19%, with final maturity on May 1, 2008. The securities are carried at cost, which approximates market value.

4. *SECURITIES - continued*

The following is a summary of future principal and interest to be collected based on contractual maturity of the securities after year-end:

		Principal	Interest	Total	Weighted Average Maturity (Years)
July 1, 2007 to June 30, 2008	$	1,136,658	501,020	1,637,678	1.0 years
July 1, 2008 to maturity		9,472,545	2,883,281	11,854,806	8.9 years
	$	10,609,203	3,384,301	13,492,484	

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in The Authority's name. The Authority's investments in securities listed above are not collateralized.

Concentration of Credit Risk. Concentration of credit risk is defined as investments of more than 5% in any one issuer.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS*

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation.

Interfund receivables and payables as of June 30, 2007 consist of the following:

			Due To:		
				Enterprise Funds	
			PPRF 200s	Operating Fund 101	Total
Due From:					
Governmental Funds:					
Metro Court	304	$	-	-	-
Water and Wastewater Grant	307		-	7,202	7,202
Water Project Fund	309		-	23,864	23,864
Emergency Drought Relief	312		-	-	-
Water Planning Grant	313		-	5,113	5,113
Economic Development	314		-	1,103,063	1,103,063
Total Governmental Funds			-	1,139,242	1,139,242
Enteprise Funds:					
GRIP Fund	104	$	-	25,597	25,597
Drinking Water	500		-	28,050	28,050
Child Care	319		-	71,538	71,538
Behavioral Health	311		-	8,626	8,626
Local Road Fund	504		-	1,429	1,429
Primary Care	501		-	42,350	42,350
NM Tax Credit	600		-	164,531	164,531
Energy Efficiency	601		-	10,239	10,239
PPRF	200s		-	285,703	285,703
Total Enterprise Funds			-	638,063	638,063
		$	-	1,777,305	1,777,305

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Transfers between funds for the year ended June 30, 2007 are as follows:

		Transfers Out:						
		UNM Health Sciences 103/105	Metro Court 304	State Building 100	Water and Wastewater Project 307	Water Project Fund 309	Other	Total
Transfers In:								
Governmental Funds:								
UNM Health Sciences	103/105	$ -	-	-	-	-	7,151,932	7,151,932
Metro Court	304	-	-	-	-	-	2,403,004	2,403,004
State Building	100	-	-	-	-	-	6,417,627	6,417,627
Emergency Drought Relief	312	-	-	-	-	1,220	-	1,220
Water Planning Grant	313	-	-	-	-	-	-	-
Equipment Loan Fund	400s	-	-	-	-	-	-	-
Other		6,662,550	-	6,297,388	-	-	779	12,960,717
Total Governmental Funds		6,662,550	-	6,297,388	-	1,220	15,973,342	28,934,500

		Operating Fund 101	GRIP Admin 104	Drinking Water 500	Cigarette Tax Revenue 321	PPRF 200s	Other	Total
Transfers In:								
Enterprise Funds:								
Operating Fund	101	-	-	-	-	-	5,106,464	5,106,464
GRIP Admin.	104	10,000	-	-	-	-	-	10,000
Drinking Water	500	-	-	6,713,687	-	-	-	6,713,687
Behavioral Health	311	-	-	-	49,445	-	-	49,445
Local Road Fund	504	-	1,000,500	-	-	-	-	1,000,500
Cigarette Tax Revenue	321	-	-	-	-	-	262,750	262,750
PPRF	200s	-	-	-	-	-	14,327,709	14,327,709
Other		5,489,452	-	-	-	12,979,230	-	18,468,682
Total Enterprise Funds:		5,499,452	1,000,500	6,713,687	49,445	12,979,230	19,696,923	45,939,237
Total Governmental and Enterprise Funds		$ 12,162,002	1,000,500	13,011,075	49,445	12,980,450	35,670,265	74,873,737

Transfers in and out of the governmental funds are legilsatively appropriated revenues to pay debt service.

Enterprise fund transfers in and out are primarily movement of loan proceeds out to the borrowers to pay for program and construction costs.

$1,228,241 was transferred from the Governmental Funds to the Enterprise Funds for fiscal year ending 2007.

The following Enterprise Fund owed the following amount to other state agencies at June 30, 2007:

The Drinking Water Revolving Loan Fund owed $1,704,907 to the Environment Department for technical set-asides.

6. *OPERATING TRANSFERS*

Governmental Funds Operating Transfers from (to) Other State Agencies

State Agency	Agency Fund Number		Economic Development Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Other Governmental Funds	Total
Dept. of Finance & Administration	34100	$	4,900,000	714,128	6,090,000	6,835,217	1,953,059	20,492,404
University of New Mexico	95100		-	-	-	(1,806,503)	-	(1,806,503)
New Mexico Department of Labor	63100		-	-	-	-	(848,752)	(848,752)
New Mexico State University	95200		-	-	(2,019,029)	-	-	(2,019,029)
University of NM Law Library	95100		-	(94,150)	-	-	-	(94,150)
			4,900,000	619,978	4,070,971	5,028,714	1,104,307	15,723,970

Enterprise Funds Operating Transfers from (to) Other State Agencies

State Agency	Agency Fund Number		Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund
Bernalillo Metropolitan Court	24400	$	(330,211)	-
NM Environment Department	66700		-	(3,008,527)
NM Department of Health	66500		(2,056,307)	-
			(2,386,518)	(3,008,527)

The Authority received $20,492,404 in New Mexico state general fund appropriations from the Department of Finance and Administration.

6. *OPERATING TRANSFERS - continued*

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2007:

The UNM Health Sciences 2004A transferred $1,806,503 for revenue rebate to UNM from cigarette tax collections.

The Workers' Compensation Series 1996 transferred $848,752 for revenue rebate to Workers' Compensation.

The State Building GRT Purchase Fund transferred $2,019,029 in program fund requests to project draw requests, debt service payments and final debt service payment for NMSU building.

The following special revenue fund made the following transfer to other state agencies during the year ended June 30, 2007:

The State Building Program Cigarette Tax Fund transferred $94,150 for the UNM Law Library debt service.

The following enterprise funds made the following transfers to other state agencies during the year ended June 30, 2007:

The PPRF Series 2005 C & D Metro Court Refunding transferred $330,211 for project draw requests to Metro Court.

The Drinking Water Revolving Fund transferred $3,008,527 to the New Mexico Environment Department for billings.

The PPRF Series 2006 D Fund transferred $23,562,228 for project draw requests.

The PPRF Direct Cash Loans transferred $2,056,307 for revenue rebate to Department of Health Primary and Secondary Accounts.

7. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

Business-type Activities		Balance June 30, 2006	Additions	Adjustments/ Deletions	Balance June 30, 2007
Depreciable assets:					
Furniture and fixtures at historical cost	$	157,526	-	(59,360)	98,166
Computer hardware and software		359,324	103,545	(74,167)	388,702
Machinery and equipment		25,563	-	(795)	24,768
Leasehold improvements		10,557	17,545	(1,170)	26,932
		552,970	121,090	(135,492)	538,568
Accumulated depreciation:					
Furniture and fixtures		(134,196)	(13,785)	3,922	(144,059)
Computer hardware and software		(48,788)	(54,585)	15,530	(87,843)
Machinery and equipment		(6,024)	(3,478)	990	(8,512)
Leasehold improvements		(3,080)	(3,786)	980	(5,886)
		(192,088)	(75,634)	21,422	(246,300)
Net total	$	360,882	45,456	(114,070)	292,268

Depreciation expense was $21,924 in the Operating Fund, $22,785 in the Public Project Revolving Fund, $12,239 in the Drinking Water Revolving Loan Fund, $17,352 in the GRIP Administrative Fund, $167 in the Primary Care Fund, $333 in the Behavioral Health Capital Fund, $167 in the Child Care Revolving Loan Fund, $167 in the Local Road Fund, $333 in the Tax Credits Fund and $167 in the Energy Efficiency Fund for the year ended June 30, 2007.

7. *CAPITAL ASSETS - continued*

Governmental Activities		Balance June 30, 2006	Additions	Adjustments/ Deletions	Balance June 30, 2007
Depreciable assets:					
Furniture and fixtures at historical cost	$	157,670	-	(57,034)	100,636
Computer hardware and software		116,875	24,867	(22,368)	119,374
Machinery and equipment		24,880	-	(531)	24,349
Leasehold improvements		10,470	4,117	(1,269)	13.318
		309,895	28,984	(81,202)	257,677
Accumulated depreciation:					
Furniture and fixtures		(45,628)	(18,301)	4,808	(59,121)
Computer hardware and software		(21,849)	(21,709)	5,704	(37,854)
Machinery and equipment		(7,313)	(4,428)	1,163	(10,578)
Leasehold improvements		(2,856)	(2,422)	657	(4,621)
Accumulated depreciation		(77,646)	(46,860)	12,332	(112,174)
Net total	$	232,249	(17,876)	(68,870)	145,503

8. BONDS PAYABLE

Bonds outstanding as of June 30, 2007, for the Authority's enterprise funds consist of the following:

Public Project Revolving Funds (PPRF)

PPRF Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A, in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investments securities.

PPRF Series 1999A, 1999B, 1999C and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax exempt) and Series 1999 and 1999D (taxable), in the aggregate principal amounts of $13,135,000, $3,025,000, $2,265,000 and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

PPRF Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A Bonds, in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

PPRF Series 2000B and C. On September 1, 2000, the Authority issued $7,670,000 of Public Project Revolving Fund, Series 2000B and $28,850,000 Series 2000C Bonds. The Series 2000B and C bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various Governmental Units and to reimburse the Authority for and to finance the costs of issuance of the Series 2000B and C Bonds.

8. BONDS PAYABLE - continued

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

PPRF Series 2005F. On December 7, 2005, the Authority issued $21,950,000 of Subordinate Lien Public Project Revolving Fund Series 2005 F Revenue Bonds. The 2005 F Series Bonds were issued to 1) directly fund, or to reimburse the Public Projects Revolving Fund for, loans made by the NMFA to certain governmental entities for the purpose of financing public projects, 2) purchase a Reserve Instrument, and 3) pay the cost of issuance of the Series 2005 F Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2006A. On March 28, 2006, the Authority issued $49,545,000 of Subordinate Lien Public Project Revolving Fund Series 2006 A Revenue Bonds. The 2006 A Series Bonds were issued to 1) originating loans or reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities that will be or were used to finance certain projects for such governmental units, 2) purchase a reserve surety bond for deposit to the debt service reserve account established for the Series 2006 A Bonds, and 3) pay costs incurred in connection with the issuance of the Series 2006 A Bonds.

PPRF Series 2006B. On June 27, 2006, the Authority issued $38,260,000 of Senior Lien Public Project Revolving Fund Series 2006 B Revenue Bonds. The 2006 B Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units and, 2) pay costs incurred in connection with the issuance of the Series 2006 B Bonds.

PPRF Series 2006C. On November 7, 2006, the Authority issued $39,860,000 of Subordinate Lien Public Project Revolving Fund Series 2006 C Revenue Bonds. The 2006 C Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, including a $21,650,229 loan to the Jicarilla Apache Tribal Utility Authority; 2) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2006 C Bonds; and 3) paying costs incurred with the issuance of the Series 2006 C Bonds.

PPRF Series 2006D. On September 6, 2006, the Authority issued $54,600,000 of Senior Lien Public Project Revolving Fund Series 2006 D Revenue Bonds. The 2006 D Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, 2) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue Bonds, Series 2006 A (PERA Building Acquisition) (the "2006A Bonds") to finance the acquisition and improvement of a public building for use by the State with proceeds of the 2006 A Bonds, 3) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue bonds Series 2006 B (Refunding Project) (the "2006 B Bonds") to refund the outstanding NMFA State Office Building Bonds Series 2002 A

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2006D - continued.
with proceeds of the Series 2006 B Bonds, and 4) pay costs incurred in connection with the issuance of the Series 2006 D Bonds.

PPRF Series 2007A. On February 27, 2007, the Authority issued $34,010,000 of Subordinate Lien Public Project Revolving Fund Series 2007 A Revenue Bonds. The 2007 A Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; 2) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007 A Bonds; 3) paying accrued interest; and 4) paying costs incurred with the issuance of the Series 2007 A Bonds.

Bonds outstanding as of June 30, 2007, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds, Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

8. *BONDS PAYABLE - continued*

Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds.

On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate

8. *BONDS PAYABLE - continued*

Equipment Loan Fund - continued.
principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 19965B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issued revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds, Series 2002A, were issued on December 15, 2001, for purpose of financing the costs of acquiring, constructing, equipping and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

8. *BONDS PAYABLE - continued*

Bonds payable and related premium/discount balances consist of the following at June 30, 2007:

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1997A	$	-	4.25 - 5.00	6/1/2007
PPRF 1999A, B, C and D		11,360,000	3.30 - 6.30	6/1/2018
PPRF 2000A		1,055,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		9,950,000	4.35 - 5.60	6/1/2009
PPRF 2002A		23,170,000	2.00 - 5.00	6/1/2026
PPRF 2003A		23,799,000	2.00 - 4.75	6/1/2025
PPRF 2003B		21,470,000	2.00 - 5.00	6/1/2021
PPRF 2004A		34,925,000	1.125 - 5.00	6/1/2031
PPRF 2004B		41,355,000	3.00 - 5.125	6/1/2033
PPRF 2004C		151,540,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D		52,920,000	3.05 - 5.00	6/15/2025
PPRF 2005A		16,595,000	3.00 – 4.25	6/1/2025
PPRF 2005B		13,225,000	3.00 – 4.25	6/1/2020
PPRF 2005E		23,630,000	4.00 - 5.00	6/15/2025
PPRF 2005F		21,215,000	4.00 - 5.00	6/15/2025
PPRF 2006A		49,490,000	4.00 - 5.00	6/15/2035
PPRF 2006B		37,605,000	4.00 - 5.00	6/1/2036
PPRF 2006C		39,095,000	4.00 - 5.00	6/15/2027
PPRF 2006D		52,645,000	4.00 - 5.00	6/1/2036
PPRF 2007A		33,695,000	4.00 - 5.00	6/15/2027
CIG TAX 2006 – Behavioral Health		2,375,000	5.51	5/1/2026
		661,114,000		
Bond premium and discount, net on enterprise funds		30,410,699		
Total	$	691,524,699		

8. BONDS PAYABLE – continued

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service Funds:				
UNM Health Sciences	$	25,225,000	2.00 - 5.00	4/1/2019
UNM Health Sciences 2004B		8,915,000	2.10 - 5.50	4/1/2019
Workers' Compensation Financing Fund		2,750,000	5.00 - 5.60	3/1/2017
Metro Court		45,765,000	5.50 - 5.80	6/15/2011
State Capitol Improvement Financing Fund		5,955,000	7.00	6/1/2021
State Building Purchase Fund		27,470,000	4.00 - 5.00	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B		208,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A		62,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B		237,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond		-	3.95 - 5.25	6/1/2006
		116,587,000		
Bond premium and discount, net on Debt Service Funds		2,071,134		
Total	$	118,658,134		

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2008	$	37,194,000	36,808,177	74,002,177
2009		48,245,000	35,351,346	83,596,346
2010		42,345,000	33,291,533	75,636,533
2011		86,238,000	31,474,520	117,712,520
2012		45,262,000	29,379,803	74,641,803
2013 - 2017		217,599,000	105,880,381	323,479,381
2018 - 2022		159,981,000	58,167,272	218,148,272
2023 - 2027		89,427,000	23,580,020	113,007,020
2028 - 2032		27,440,000	10,200,556	37,640,556
2033 - 2037		23,970,000	2,862,050	26,832,050
Total	$	777,701,000	366,995,658	1,144,696,658

8. *BONDS PAYABLE - continued*

The bonds payable activity for the year is as follows:

		Balance, July 1, 2006	Additions	Deletions	Balance, June 30, 2007
Enterprise Funds	$	577,348,000	130,270,000	(46,504,000)	661,114,000
Debt Service Funds		123,519,000	-	(6,932,000)	116,587,000
Total	$	700,867,000	130,270,000	(53,436,000)	777,701,000

The amount of bonds payable due within one year is $37,194,000.

The following bonds were issued by the Authority in an agency capacity and are not included in the Authority's financial statements (see Note 14):

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation, Series 2004A, Revenue Bonds. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation, Series 2004B, Refunding Revenue Bonds. The Series 2004B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation, Series 2004C, Refunding Revenue Bonds. The Series 2004C Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

8. BONDS PAYABLE - continued

State Transportation Series 2006A Revenue Bonds. On September 19, 2006, the Authority issued $150,000,000 of State Transportation, Series 2006A Revenue Bonds. The Series 2006A Bonds were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of GRIP transportation projects. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2006B Revenue Bonds. On September 19, 2006, the Authority issued $39,005,000 of State Transportation, Series 2006B Refunding Revenue Bonds. The Series 2006B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2006C Revenue Bonds. On September 19, 2006, the Authority issued $220,000,000 of State Transportation, Series 2006C Revenue Bonds. The Series 2006C bonds were issued as adjustable rate securities and were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of the GRIP transportation projects. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2006D Revenue Bonds. On September 19, 2006, the Authority issued $50,680,000 of State Transportation, Series 2006D Revenue Bonds. The Series 2006D Bonds were issued to provide funds for an escrow account required to be maintained by the New Mexico Department of Transportation pursuant to a Joint Use Agreement between the New Mexico Department of Transportation and the BNSF Railway Company. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not on the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

9. *NOTE PAYABLE*

In November 2002, the Authority issued the 2002A Bond. Part of the 2002A Bond proceeds were given to UNM for their Law Library, and the remaining portion of $2,000,000 was loaned to UNM. To offset this loan receivable, the Authority was issued a note payable in conjunction with the 2002A Debt Service requirement. The terms of this note are outlined below:

$2,000,000 variable interest rate (3.820% at June 30, 2007), note due in annual installments of $150,557 (currently), including interest, through May 2015. Note is offset by cigarette tax proceeds received from the State of New Mexico.	$	1,855,346
		1,855,346
Less current maturities		150,557
	$	1,704,789

Long-term debt maturities on note payable to PPRF Fund as of June 30, 2007, are as follows:

Years ending June 30:		
2008	$	150,557
2009		156,941
2010		163,848
2011		171,223
2012		179,102
2013 - 2017		1,033,675
	$	1,855,346

10. LINE OF CREDIT

The Authority maintains an unsecured credit facility which provides for a borrowing limit of up to $100,000,000. The terms of the credit facility require payment in full or renewal by May 31, 2009. Interest is due monthly on the outstanding balance, and accrues at the BBA LIBOR rate plus basis points (3.628% at June 30, 2007). Basis points are calculated quarterly based on the ratio of funded debt to operating cash flow. Additional borrowings must be made at a minimum amount of $5,000,000. The Authority shall pay the unused commitment fee on a quarterly basis beginning June 30, 2007, at a rate between 6 to 9 basis points pursuant to the line of credit agreement. At June 30, 2007, $31,338,974 had been borrowed on this line, providing for an unused commitment of $68,661,026.

	Balance, July 1, 2006	Additions	Deletions	Balance, June 30, 2007	Short-term Portion
Line of Credit	$ -	31,338,974	-	31,338,974	31,338,974

11. OPERATING LEASE COMMITMENT

The Authority is committed under various lease agreements for office space and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2007 amounted to approximately $277,000.

Future minimum lease payments for these leases are as follows:

Years ending June 30:	
2008	$ 299,121
2009	307,598
2010	319,902
2011 and thereafter	-
	$ 926,621

12. RETIREMENT PLAN

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3%

12. *RETIREMENT PLAN - continued*

of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $301,983, $263,313 and $204,975 for the years ended June 30, 2007, 2006 and 2005, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2007, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

<u>Statement of Fiduciary Net Assets</u>

Assets:		
Cash	$	-
Self-directed accounts (cash and investments)		1,667,625
Guaranteed Account		10,520
Participant loan receivable		32,721
Total assets	$	1,710,866
Net assets:		
Pension plan participants' benefits	$	1,710,866

<u>Statement of Changes in Net Assets</u>

Additions:		
Investment earnings	$	241,715
Employer contributions		301,982
Rollover contributions		42,447
Employee contributions		104,087
Total additions		690,231
Deductions:		
Distributions to participants		128,600
Investment expenses		12,493
Total deductions		141,093

12. RETIREMENT PLAN - continued

Change in net assets	$	549,138
Net assets - beginning		1,161,748
Net assets - ending	$	1,710,886

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code for its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2007 were $21,664.

13. COMPENSATED ABSENCES

During the year ended June 30, 2007, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2006	Additions	Deletions	Balance, June 30, 2007
$	162,277	190,065	160,254	192,088

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

14. *AGENCY TRANSACTIONS*

Bond Issues

The Authority, on behalf of the New Mexico Department of Transportation (NMDOT), issued $700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A in May 2004. The gross proceeds to the Authority were $738,787,815, including $43,556,815 of an original issue premium. The cost of issuance including underwriter fees was $6,368,367. The Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and the NMDOT has determined to be necessary or desirable.

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 3.8% to 5.25% per annum is payable semi-annually on June 15 and December 15 through the year 2024.

The Authority, on behalf of the NMDOT, issued $237,950,000 and $200,000,000 (Authority) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C in May 2004. The gross proceeds to the Authority for both issuances were $451,069,205, including $16,347,187 of an original issue premium. The cost of issuance including underwriter fees was $4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The $237,950,000 Series 2004B Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the Authority and the Commission.

The NMDOT is responsible for the Authority issuance costs. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 2% to 5% per annum is payable semi-annually on June 15 and December 15 through the year 2014.

14. *AGENCY TRANSACTIONS - continued*

Bond Issues - continued

The Series 2004C Bonds are special, limited obligations of the NMDOT payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C Bonds or which may hereafter be issued through the Authority. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

The Authority is responsible for its issuance costs. Principal of the Bonds is payable as follows on June 15 with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is fixed at 3.393% based on a swap agreement in place at June 30, 2004.

For the year ended June 30, 2007, the Authority recorded $2,313,000 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2007, the Authority had $231,353,435 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

Refunding

The Authority, on behalf of the NMDOT, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. $317,880,000 of the bonds outstanding was considered defeased as of June 30, 2007.

14. *AGENCY TRANSACTIONS - continued*

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

Objective of the Swaps. In April of 2004, the Authority entered into two forward starting swaps (Swap Agreements), each with a different counterparty and each designed to hedge future interest rates. The intention of the Swap Agreements was to take advantage of historically low interest rates for tax-exempt bonds to be issued in 2006. The State Transportation Revenue Bonds, Series 2006 (2006 Bonds) were issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a $1.6 billion statewide transportation expansion and infrastructure improvement project. The Swap Agreements each contain a knock-out option that begins on the settlement date and ends on the maturity date of each agreement and that allows each counterparty to cancel the agreement at no cost to the counterparty. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between $175 million and $200 million in cash and short-term investments which will act as a natural hedge for any outstanding variable rate bonds that may result from the exercise of any knock-out option.

Terms. The Swap Agreements were entered into with J. P Morgan Chase Bank and UBS AG (J. P. Morgan and UBS, respectively, and collectively the Counterparties). The Swap Agreements were effective on December 15, 2006 and they mature on December 15, 2026. On the trade date, April 22, 2004, J. P. Morgan was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P); Aa2 by Moody's Investor's Service, Inc. (Moody's); and UBS was rated AA+ S&P and Aa2 Moody's. The Swap Agreements were priced at a fixed rate of 5.072% based on an amortizing notional schedule with a combined initial notional amount of $220,000,000. Under the Swap Agreements, each month commencing on June 15, 2007, the Authority shall make an interest payment based on a fixed rate of 5.072% and the Counterparties shall make an interest payment based on the SIFMA municipal swap index reset weekly. The knock-out option embedded in each of the Swap Agreements was struck at 7% and it is exercisable each day beginning on the settlement date and ending on the maturity date of the Swap Agreements. Each month, the Counterparties shall make an option premium payment to the Authority in an amount that is equal to 0.34% per annum and that will result in a synthetic fixed cost of borrowing of 4.732%. By making the option premium payment to the Authority, the Counterparties have paid to have the right (but not the obligation) to terminate the swap should the 180 day average of the SIFMA municipal swap index move above 7%. The variable rate due on the 2006 Bonds is based on market conditions and not on an index.

14. AGENCY TRANSACTIONS - continued

Interest Rate Swaps - continued

State Transportation Revenue Bonds, Series 2006 - continued

Fair Value: As of June 30, 2007, the Swap Agreements, excluding the option value, had a negative fair value of $21,763,409.28. The options had a positive value of $5,547,825.32 in isolation of the swaps. The Swap Agreements, including the value of the options, had a total negative fair market value of $16,215,583.96. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair market value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Basis Risk. The possibility of a mismatch between actual variable rate bond debt service payments and variable rate receipts. The variable rate on the 2006 Bonds is expected to closely match SIFMA municipal swap index.

Counterparty / Credit Risk. The possibility of counterparty non-performance or the possibility of an event occurring that modifies the credit quality or credit rating of the Authority and its counterparty. As of June 30, 2007, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the Counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on Counterparties ratings as set forth in the CSA. J. P. Morgan and UBS were rated AA/Aaa and AA+/Aaa by S&P/Moody's, respectively, as of June 30, 2007.

Interest Rate Risk. The possibility that the debt service costs associated with variable rate debt and negatively affect coverage ratios and cash flow margins. The knock-out option in the swaps leaves the Authority open to interest rate risk. If the SIFMA municipal swap index averages above 7% for 180 consecutive days, then Swap Agreements could be cancelled by the Counterparties and the Authority would have outstanding unhedged variable rate debt in a 7% interest rate environment.

Tax Risk. The possibility that a tax event could affect sufficiency of swap receipts. Because the floating leg of the Swap Agreements is tied to the SIFMA municipal swap index and not to LIBOR, there is no tax risk.

14. AGENCY TRANSACTIONS - continued

Interest Rate Swaps - continued

State Transportation Revenue Bonds, Series 2006 - continued

Termination Risk. The possibility that an interest rate swap agreement must be terminated prior to its stated final cash flow date, and that the Authority cannot obtain a replacement transaction with substantially similar terms, including because of a deterioration of the Authority's own credit. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's, respectively. The swap also includes an additional termination event related to non-issuance of the associated bonds. That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial cash reverses which will mitigate this risk by generating variable rate income. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate lien), Series 2004 C-1,C-2 and C-3 (2004 Refunding Bonds)

Objective of the Swap. In April of 2004, the Authority entered into three (3) swaps (the Swap Agreements) with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of $11,524,206.49, or 3.02% of the refunded bonds. The Swap Agreements were structured to increase the Authority's savings, when compared against fixed-rate alternatives at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the Swap Agreements was to effectively change the Authority's interest rate on the bonds to a fixed rate.

Terms. The Swap Agreements were executed with Goldman Sachs Mitsui Marine Derivative, Lehman Brothers Derivative Products Inc. and Royal Bank of Canada (Goldman, Lehman and RBC, respectively, and collectively the Counterparties) in the respective initial amortizing notional amounts of $50,000,000, $50,000,000 and $100,000,000. The Counterparties were, at the trade date, rated AA+/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's, respectively. The Swap Agreements commenced on May 20, 2004 and mature on June 15, 2024. Under the Swap Agreements, the Authority shall

14. *AGENCY TRANSACTIONS - continued*

Interest Rate Swaps - continued

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

Terms – continued.
pay a fixed rate of 3.934% and received a variable rate computed as the SIFMA municipal swap index until June 15, 2006, on which date the variable interest rate received switches to 68% of the one month London Interbank Offered Rate (LIBOR) until maturity. The 2004 Refunding Bonds' variable rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2007, the Swap Agreements had a negative fair market value of $220,948.54 (Lehman $62,523.12, Goldman $52,808.44, and RBC $105,616.98). Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the 2004 Refunding Bonds do not have a corresponding fair value increase. The fair value on the Swap Agreements was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for the hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Basis Risk. The possibility of a mismatch between actual variable rate bond debt service payments and variable rate receipts. As of June 30, 2007, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The synthetic fixed rate is the fixed rate (3.94%) plus or minus the difference between the variable bond payments and the variable swap payments. The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2007, the rate on the bonds was 3.89%, whereas 68% on month LIBOR was 3.6176%.

Counterparty / Credit Risk. The possibility of counterparty non-performance or the possibility of an event occurring that modifies the credit quality or credit rating of the Authority and its counterparty. As of June 30, 2007, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the Counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on Counterparties ratings as set forth in the CSA. Goldman, Lehman and RBC were rated AAA/Aaa, AAA/Aaa and AA-/Aaa by S&P/Moody's, respectively, as of June 30, 2007.

14. *AGENCY TRANSACTIONS - continued*

Interest Rate Swaps - continued

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

Tax Risk. The possibility that a tax event could affect sufficiency of swap receipts. The Authority is exposed to tax risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rated causes the rate paid on the outstanding bonds to be greater than 68% of LIBOR received on the swap.

Termination Risk. The possibility that an interest rate swap agreement must be terminated prior to its stated final cash flow date, and that the Authority cannot obtain a replacement transaction with substantially similar terms, including because of deterioration of the Authority's own credit. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's, respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has negative fair value, the Authority would be liable to the counterparty for payment equal to the swap's fair value.

$100 Million of the $200 Million GRIP 2004 Floating-to-Synthetic Fixed Rate Refunding Swaps (2004 Swaps)

Objective of the Swap. In August of 2006, the Authority entered into a constant maturity swap (the Swap or CMS) with Citibank, N.A. (the Counterparty) to lower the Authority's cost of funds and diversify tax risk.

Terms. The Authority will be a floating rate payor, paying the Counterparty a floating rate equal to 68.0% of one month LIBOR on the outstanding notional amount, and the Counterparty will be a floating rate payor, paying the Authority a floating rate equal to 63.05% of the 5 year USD ISDA-SWAP constant maturity index on the outstanding notional amount. Payments of amounts due under the CMS will be made on the first day of each calendar month commencing on October 1, 2006. The aggregate notional amounts of the swap will be reduced on June 1, 2023 in an amount equal to the amortization schedule set forth in the transaction confirmation entered into by the Authority with the Counterparty. The stated termination date under the swap is June 15, 2024.

14. *AGENCY TRANSACTIONS - continued*

Interest Rate Swaps - continued

$100 Million of the $200 Million GRIP 2004 Floating-to-Synthetic Fixed Rate Refunding Swaps (2004 Swaps) - continued

Fair Value. As of June 30, 2007, the swap had a negative fair value of $1,130,726.70. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Basis Risk. The possibility of a mismatch between actual variable rate bond debt service payments and variable rate receipts. As of June 30, 2007, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 63.05% of the 5 year USD ISDA-SWAP constant maturity index received on the swap. The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2007, the rate on the bonds was 3.89%, whereas 63.05% of the 5 year USD ISDA-SWAP constant maturity index was 3.4873%.

Counterparty / Credit Risk. The possibility of counterparty non-performance or the possibility of an event occurring that modifies the credit quality or credit rating of the Authority and its counterparty. As of June 30, 2007, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the Counterparty will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on Counterparty ratings as set forth in the CSA. Citibank, N.A. was rated AA+/Aaa by S&P/Moody's, respectively, as of June 30, 2007.

Tax Risk. The possibility that a tax event could affect sufficiency of swap receipts. The Authority is exposed to tax risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rated causes the rate paid on the outstanding bonds to be greater than 63.05% of the 5 year USD ISDA-SWAP constant maturity index received on the swap.

Termination Risk. The possibility that an interest rate swap agreement must be terminated prior to its stated final cash flow date, and that the Authority cannot obtain a replacement transaction with substantially similar term, including because of deterioration of the Authority's own credit. The swap uses the International Swap Dealers Association Master Agreement, which includes standard

14. *AGENCY TRANSACTIONS - continued*

Interest Rate Swaps - continued

$100 Million of the $200 Million GRIP 2004 Floating-to-Synthetic Fixed Rate Refunding Swaps (2004 Swaps) - continued

Termination Risk - continued.
termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's, respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has negative fair value, the Authority would be liable to the counterparty for payment equal to the swap's fair value.

15. *SUBSEQUENT EVENTS*

After June 30, 2007, the Authority issued the following PPRF Direct Loans, Water Project Fund/Water Trust Board Grants, and Subordinate Lien PPRF Revenue Bonds:

	Closing Date		Amount
PPRF Cash Loans:			
DL - New Mexico Junior College	7/6/2007	$	4,563,720
DL - Las Cruces City	7/6/2007		6,311,058
DL - Las Cruces City	7/6/2007		2,139,117
DL - Las Cruces City	7/6/2007		1,111,112
DL - Aztec Municipal School District 3	7/13/2007		15,000,000
DL - San Felipe Pueblo	7/20/2007		10,854,786
DL - Bloomfield School District 6	7/20/2007		20,000,000
DL - Santa Rosa City	7/27/2007		127,778
DL - Las Vegas City School District 2	7/27/2007		2,000,000
DL - Gila Regional Medical Center	8/10/2007		3,000,000
DL - Eagle Nest Village	8/10/2007		200,000
DL - Logan Village	8/17/2007		260,000
DL - Deming City	8/17/2007		1,024,005
DL - Bloomfield City	8/17/2007		1,727,552
DL - Sierra County	8/31/2007		5,075,223
DL - Gadsden Independent School District 16	9/14/2007		8,900,000
DL - Gadsden Independent School District 16	9/14/2007		2,350,000
DL - Cobre Consolidated School District 2	9/14/2007		2,800,000
DL - Albuquerque Bernalillo County Water Utility Authority	9/26/2007		77,005,000
Water Project Fund/Water Trust Board:			
WPF/WTB – Elephant Butte	8/3/2007		121,175
WPF/WTB – Anthony WSD	9/14/2007		75,000

15. SUBSEQUENT EVENTS - continued

PPRF Series 2007B. On July 19, 2007, the Authority issued $38,475,000 of Subordinate Lien Public Project Revolving Fund Series 2007 B Revenue Bonds. The 2007 B Series Bonds were issued to 1) reimburse the Public Project Revolving fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, 2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the 2007 B Bonds, 3) purchase a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007 B bonds, and 4) pay costs incurred with the issuance of the Series 2007 B Bonds.

16. DEFICIT FUND / NET ASSETS

There are deficit fund balances of $56,016 in the Child Care Revolving Loan Fund, $163,460 in the New Mexico Tax Credits Fund and $9,330 in the Energy Efficiency Fund. The operating fund will cover the deficits in these funds.

There is a deficit in net assets of $75,078,101 in the governmental activities in the Statement of Net Assets. The decline in governmental net assets is the result of the decline in certain grant funds.

SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

		Emergency Drought Water Program	Water and Wastewater Planning Grant Fund	Metro Court Financing Fund	Workers' Compensation Financing Fund	State Capital Improvement Financing Fund	Equipment Loan Fund	Total Non-major Governmental Funds
ASSETS:								
Unrestricted:								
Cash and cash equivalents	$	273,887	1,114,125	-	625,516	383,197	-	2,396,725
Receivables:								
Tax revenue		-	-	-	37,710	-	-	37,710
Interest		-	-	-	-	-	7,634	7,634
Other receivables		-	-	-	-	-	-	-
Loans receivable		-	-	-	-	-	507,000	507,000
		273,887	1,114,125	-	663,226	383,197	514,634	2,949,069
Restricted:								
Cash and cash equivalents held for others by trustee:								
Debt service		-	-	-	620,383	-	23,702	644,085
Bond reserve		-	-	-	-	-	-	-
Program - bond proceeds		-	-	-	-	-	-	-
TOTAL ASSETS	$	273,887	1,114,125	-	1,283,609	383,197	538,336	3,593,154
LIABILITIES:								
Accounts payable	$	-	4,544	-	-	80,263	-	84,807
Debt service payable		-	-	-	-	-	23,703	23,703
Notes payable		-	-	-	-	-	-	-
Payable to other governments		-	-	-	-	-	-	-
Due to other funds		-	5,113	-	-	-	-	5,113
TOTAL LIABILITIES		-	9,657	-	-	80,263	23,703	113,623
FUND BALANCES:								
Reserve for debt service		-	-	(1,386,622)	1,283,609	302,934	514,633	714,554
Unreserved, reported in non-major:								
Special revenue funds		273,887	1,104,468	1,386,622	-	-	-	2,764,977
TOTAL FUND BALANCES		273,887	1,104,468	-	1,283,609	302,934	514,633	3,479,531
TOTAL LIABILITIES AND FUND BALANCES	$	273,887	1,114,125	-	1,283,609	383,197	538,336	3,593,154

See Independent Auditors' Report.

YEAR ENDED JUNE 30, 2007

		Emergency Drought Water Program	Water and Wastewater Planning Grant Fund	Metro Court Financing Fund	Workers' Compensation Financing Fund	State Capital Improvement Financing Fund	Equipment Loan Fund	Total Non-major Governmental Funds
REVENUES:								
Grant revenue	$	-	-	-	-	-	-	-
Interest on loans		-	-	-	-	-	37,298	37,298
Interest on investments		13,738	50,942	-	60,097	14,954	-	139,731
Other revenue		-	-	-	-	-	-	-
TOTAL REVENUES		13,738	50,942	-	60,097	14,954	37,298	177,029
EXPENDITURES:								
Current:								
Administrative fee		-	-	-	-	15,894	-	15,894
Professional services		-	12,681	-	1,283	-	-	13,964
Salaries and fringe benefits		-	50,790	-	-	-	-	50,790
In-state travel		-	2,199	-	-	-	-	2,199
Out-of-state travel		-	-	-	-	-	-	-
Maintenance and repairs		-	493	-	-	-	-	493
Operating costs		155	14,318	-	-	-	-	14,473
Grant expenses		-	38,489	-	-	-	-	38,489
Capital Outlay		-	4,605	-	-	-	-	4,605
Debt service - principal		-	-	210,000	200,000	535,000	162,000	1,107,000
Debt service - interest		-	-	806,382	155,953	445,025	39,200	1,446,560
TOTAL EXPENDITURES		155	123,575	1,016,382	357,236	995,919	201,200	2,694,467
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		13,583	(72,633)	(1,016,382)	(297,139)	(980,965)	(163,902)	(2,517,438)
OTHER FINANCING SOURCES (USES):								
State General Fund appropriations		-	-	-	1,165,238	993,122	(205,301)	1,953,059
Transfers (to) from other funds		1,040	-	2,403,004	-	-	(779)	2,403,265
Transfers to other state agencies		-	-	-	(848,752)	-	-	(848,752)
NET OTHER FINANCING SOURCES (USES)		1,040	-	2,403,004	316,486	993,122	(206,080)	3,507,572
NET CHANGE IN FUND BALANCES		14,623	(72,633)	1,386,622	19,347	12,157	(369,982)	990,134
FUND BALANCES, June 30, 2006		259,264	1,177,101	(1,386,622)	1,264,262	290,777	884,615	2,489,397
FUND BALANCES, June 30, 2007	$	273,887	1,104,468	-	1,283,609	302,934	514,633	3,479,531

See Independent Auditors' Report.

SUPPLEMENTAL SCHEDULES

YEAR ENDED JUNE 30, 2007

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	J. P. Morgan Chase (New York)	Total
Bank accounts:				
Operating account - checking	$ 223,291	-	-	223,291
Wire transfer account	222,814	-	-	222,814
Repurchase agreements	-	3,290,320	22,785,475	26,075,795
Total amount of deposits	446,105	3,290,320	22,785,475	26,521,900
FDIC coverage	(100,000)	(100,000)	(100,000)	(300,000)
Total uninsured public funds	346,105	3,190,320	22,685,475	26,221,900
Collateral requirement @ 50%	173,053	-	-	173,053
Collateral requirement @ 102%	-	3,254,126	23,139,185	26,393,311
Pledges and securities:				
US T. Note matures January 1, 2008				
Held at Wells Fargo, San Francisco, CA				
CUSIP 912828DH10				
Par $450,000 Rated by Moody's 'AAA'	353,027	-	-	353,027
US T. Note, matures January 15, 2025				
Held at Bank of America, Charlotte, NC				
CUSIP 912810FR4				
Par $3,730,000	-	3,606,185	-	3,606,185
Par $925,000 (matures 01/15/2015)	-	867,261	-	867,261
Various Agencies maturing March 1, 2019 thru February 1, 2037				
Held at J.P. Morgan Chase, New York, NY				
CUSIPS 31396E6W1; 31294KX83; 31394F2Q7; 31297AU6; 31335H6U2; 312LUH25; 3128H6UD4; 31393MBP5 313936KLQ3				
Par $27,650,000	-	-	31,509,903	31,509,903
Federal Home Agency, matures February 15, 2010				
Held at J.P. Morgan Chase, New York, NY				
CUSIP 31359MXH1				
Par $1,000,000	-	-	976,062	976,062
Overcollateralized	$ 179,974	1,219,320	9,346,780	10,746,074

Pledged collateral amounts are in compliance with the collateral requirement of 102%.

YEAR ENDED JUNE 30, 2007

Description	Type	State Treasurer	State Treasurer Capital Fund	State Treasurer Cash Held at Bank of Albuquerque	Bank of Albuquerque	Bank of America	Wells Fargo	Total	Total Book Balance
Local Government Investment Pool	Government Investment Pool *	$ 108,307,967	-	-	-	-	-	108,307,967	108,307,967
Primary Care Capital Fund	Government Investment Pool *	-	3,197,633	-	-	-	-	3,197,633	3,197,026
State Treasurer Money Market	Money Market	-	-	24,646,795	-	-	-	24,646,795	24,646,795
Trust Accounts	Money Market	-	-	-	134,270,636	-	-	134,270,636	134,270,636
Cigarette Tax Bonds Debt Service Reserve	Money Market	-	-	-	-	274,027	-	274,027	274,027
Operating Accounts	Checking	-	-	-	-	-	476,236	476,236	446,105
Agency Fund Money Market	Money Market	-	-	635,904,587	-	-	-	635,904,587	635,904,587
		$ 108,307,967	3,197,633	660,551,382	134,270,636	274,027	476,236	907,077,881	907,047,143

	Governmental Activities	Business-Type Activities	Agency Funds	Total Cash
Unrestricted	$ 20,243,985	20,101,488	-	40,345,473
Restricted	20,819,276	209,977,807	635,904,587	866,701,670
Total cash	$ 41,063,261	230,079,295	635,904,587	907,047,143

* The LGIP Pool investments consist of U.S. Government Securities, Commerical Paper and Money Market.

YEAR ENDED JUNE 30, 2007

		Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES A					
Fund 315					
ASSETS:					
Cash and investments	$	408,236,061	91,176,601	268,059,227	231,353,435
TOTAL ASSETS	$	408,236,061	91,176,601	268,059,227	231,353,435
LIABILITIES:					
Deposits held in trust for others	$	408,236,061	91,094,994	267,977,620	231,353,435
TOTAL LIABILITIES	$	408,236,061	91,094,994	267,977,620	231,353,435
DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES 2006					
Fund 322					
ASSETS:					
Cash and investments	$	-	485,524	80,999,372	404,551,152
TOTAL ASSETS	$	-	485,524	80,999,372	404,551,152
LIABILITIES:					
Deposits held in trust for others	$	-	483,693,461	79,142,309	404,551,152
TOTAL LIABILITIES	$	-	483,693,461	79,142,309	404,551,152

SINGLE AUDIT

YEAR ENDED JUNE 30, 2007

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Environmental Protection Agency:		
Capitalization Grants for Drinking Water State Revolving Funds	66.648	$ 6,537,498
Total EPA		$ 6,537,498
Funds passed through to sub-receipients		$ 3,008,527

Loans funded	Original Balance	Balance at June 30, 2007
Revolving loans		
Loans funded in previous years	$ 35,776,618	21,571,511
Total loans funded	$ 35,776,618	21,571,511

The revolving loans are funded through a mix of 80% federal and 20% state monies.
The technical set-asides are funded with 100% federal monies.

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Authority.

BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Authority's general purpose financial statements.

Reconciliation to Financial Statements (page 26) – New Mexico Drinking Water Revolving Loan Fund:

Transfers to other state agencies	$	3,008,527
Total non-interest expense		419,776
Total EPA expenditures per Statement of Revenues, Expenditures and Changes in Fund Net Assets		3,428,303
Total loans issued from Federal Draws included in loans receivable on Statement of Net Assets		3,109,195
Total EPA expenditures	$	6,537,498

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

m

MEYNERS +
COMPANY, LLC
Certified Public Accountants/
Consultants to Business

500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2007. We have also audited the financial statements of each of the Authority's nonmajor governmental funds and fiduciary funds presented as supplementary information in the combining fund financial statements as of and for the year ended June 30, 2007, and have issued our report thereon dated September 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the Authority, the State of New Mexico Office of the State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

September 19, 2007

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

m

MEYNERS + COMPANY, LLC
Certified Public Accountants/ Consultants to Business

500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority), with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Not-For-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Authority, the State of New Mexico Office of the State Auditor, and the cognizant audit agency and other federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company LLC

September 19, 2007

YEAR ENDED JUNE 30, 2006

A. *SUMMARY OF AUDIT RESULTS*

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Finance Authority (Authority).

2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Authority.

3. No significant deficiencies were disclosed during the audit of the financial statements and are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

4. There were no significant deficiencies in the internal control over major programs disclosed by the Authority.

5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.

6. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

7. The program tested as a major program is:
   Capitalization Grants for Drinking Water State Revolving Fund
   CFDA Number 66.648

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

Summary Schedule of Prior Year Audit Findings

None.

An exit conference was held with the Authority on October 29, 2007. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

William F. Fulginiti, Vice Chairman
John A. Carey, Board Member
Joy Esparsa, Board Member
William C. Sisneros, Chief Executive Officer
John Duff, Chief Operating Officer
Joseph Gosline, Chief Financial Officer
Grace Romero, Finance Manager
Susan Lack

MEYNERS + COMPANY, LLC

Georgie Ortiz, Principal
Janet Pacheco-Morton, Manager
W. Eddie Vasquez, Jr., Supervising Senior

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Independent Auditor, with the assistance and review of the Authority.

NEW MEXICO
FINANCE AUTHORITY

Financial Statements
for the Year Ended
June 30, 2008,
and Independent
Auditors' Report

Table of Contents

Single Audit:

Year Ended June 30, 2008

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
Ron Curry, Member
Charlie Dorame, Member
Ed Garcia, Member
Paul Gutierrez, Member
Lonnie Marquez, Member
Katherine Miller, Member
Fred Mondragon, Member
Joanna Prukop, Member
Craig Reeves, Member

Chief Executive Officer
William C. Sisneros

Chief Operating Officer
Jerome L. Trojan

Chief Financial Officer
John T. Duff

INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2008, and the respective changes in the financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in

MEYNERS + COMPANY, LLC
Certified Public Accountants/Consultants to Business
500 Marquette NW, Suite 800 Albuquerque, NM 87102
P 505/842-8290 F 505/842-1568 E cpa@meyners.com
www.meyners.com
An Independent Member of the BDO Seidman Alliance

New Mexico Finance Authority and
Mr. Hector H. Balderas
New Mexico State Auditor

conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, presented on pages 4 through 14, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and combining and individual fund financial statements of the Authority. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements, including the Agency Funds - Schedule of Changes in Assets and Liabilities. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

September 29, 2008

The New Mexico Finance Authority's (Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

Financial Highlights

- The Authority's government-wide net assets increased by $108,079,275 in fiscal year 2008 from 2007.
- The Authority's total revenues increased by $125,041,170 in fiscal year 2008 from 2007.
- The total cost of all Authority programs was $122,841,109, an increase of 28,627,230 over 2007.

Authority Highlights

The New Mexico Finance Authority, created in 1992, assists New Mexico governmental units, such as cities, counties and State Governmental Departments and agencies in financing capital equipment and infrastructure projects by providing loans at tax exempt rates and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Project Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the Authority and the Authority provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2008, the PPRF program made approximately 90 loans totaling approximately $386.8 million, compared to 93 loans totaling approximately $211.3 million in FY2007.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2008, the DWRLF made seven loans totaling $34.9 million compared to three loans totaling $5.76 million in FY2007. The FY2008 binding commitments numbered seven, approximating $27.9 million, compared to six totaling approximately $23.8 million in FY2007.

Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2008, the Authority Board has approved 17 loans totaling $11.25 million. In FY2008, the PCCF program made two loans totaling $3.2 million.

During FY2008, the Authority issued $391.2 million in bonds to provide reimbursement to the Public Projects Revolving Loan Fund and to retire borrowings incurred by the Authority in anticipation of issuing bonds.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY2008, four grants closed for a total of $1,053,260, compared to seven grants totaling $4,281,350 in FY2007.

The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) 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 consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

Overview of the Financial Statements - continued

Government-wide Financial Statements - continued

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Authority does not own a material interest in any infrastructure assets and, therefore, is not required to implement this portion of GASB #34.

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in the Governmental Activities for the Authority are the Metro Court Financing, the State Office Building Program Financing, the State Capitol Building Improvements Program Financing, the University of New Mexico (UNM) Health Sciences Center Projects Financing, the Workers' Compensation Administration Building Financing, the Water Projects Fund Financing, the Water/Wastewater Grant Fund, the Local Governments Planning Fund, the Emergency Drought Relief Grant Fund, the Local Government Transportation Fund (GRIP II), the Bio-Mass Dairy Fund, the Economic Development Financing and the Certificates of Participation Equipment Financings.

- Business –type Activities – The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Project Revolving Fund, the Drinking Water Revolving Loan Fund, the Primary Care Revolving Loan Fund, the Behavioral Health Care Revolving Loan Fund, the Child Care Revolving Loan Fund, GRIP I Administrative Fund, the Behavioral Health Capital Revolving Loan Fund, the GRIP Administrative Fund, the New Markets Tax Credits Fund, the Energy Efficiency Fund and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Overview of the Financial Statements - continued

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds – The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Project Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund), the Economic Development Fund, the Local Transportation Government Fund (GRIP II) and the Bio-Mass Dairy Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

- Enterprise Funds – Enterprise funds are required to account for operations for which a fee is charged to external uses for goods and services, and the activity is: a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the costs of providing services including capital costs be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The funds classified as Proprietary or Enterprise funds are the General Operating Fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund, the GRIP Administrative Fund, the Child Care Revolving Loan Fund, the Behavioral Health Care Capital Fund, the Local Infrastructure Transportation Fund, the New Markets Tax Credits Fund, the Energy Efficiency Fund and the Behavioral Health Care Revolving Fund.

Overview of the Financial Statements - continued

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis of the Authority as a Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2008. FY2008 net assets for Governmental Activities and Business-type Activities were $28,241,533 and $197,914,492, respectively. Total Authority net assets for fiscal year 2008 are $226,156,025. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2008	2007	**2008**	2007	**2008**	2007
Current and other assets	$	**134,267,548**	45,024,418	**92,483,095**	84,608,587	**226,750,643**	129,633,005
Capital and non-current assets		**2,175,384**	2,396,886	**1,432,582,634**	955,034,773	**1,434,758,018**	957,431,659
Total assets	$	**136,442,932**	47,421,304	**1,525,065,729**	1,039,643,360	**1,661,508,661**	1,087,064,664
Current liabilities	$	**6,482,888**	8,187,482	**323,519,447**	154,767,837	**330,002,335**	162,955,319
Long-term liabilities		**109,883,518**	114,311,923	**995,999,482**	691,720,673	**1,105,883,000**	806,032,596
Total liabilities		**116,366,406**	122,499,405	**1,319,518,929**	846,488,510	**1,435,885,335**	968,987,915
Net Assets:							
Invested in capital assets		**113,333**	145,503	**264,652**	292,268	**377,985**	437,771
Restricted		**19,963,193**	(75,223,604)	**216,061,333**	187,200,507	**236,024,526**	111,976,903
Unrestricted		**-**	-	**(10,246,487)**	5,662,075	**(10,246,487)**	5,662,075
Total net assets		**20,076,526**	(75,078,101)	**206,079,498**	193,154,850	**226,156,024**	118,076,749
Total liabilities and net assets	$	**136,442,932**	47,421,304	**1,525,065,729**	1,039,643,360	**1,661,508,661**	1,087,064,664

Financial Analysis of the Authority as a Whole - continued

Changes in Net Assets: The Authority's change in net assets for fiscal year 2008 was an increase of $108,079,275 (Table A-2). A significant portion, twelve percent (12%), of the Authority's revenue comes from Tax Revenue. Twelve percent (12%) comes from other operating grants and contributions, and six percent (6%) from interest and investment income. Fifty-three percent (53%) comes from state general fund appropriations, and charges for services and other revenue comprise the remaining seventeen percent (17%) of total revenue.

Table A-2
Changes in the Department's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	**2008**	2007	**2008**	2007
Revenues:						
Program	$ **13,614,678**	6,041,563	**51,922,659**	33,949,508	**65,537,337**	39,991,071
General	**128,361,086**	23,207,646	**37,021,961**	42,680,497	**165,383,047**	65,888,143
Total revenues	**141,975,764**	29,249,209	**88,944,620**	76,630,005	**230,920,384**	105,879,214
Expenses	**39,895,843**	29,628,373	**82,945,266**	64,585,506	**122,841,109**	94,213,879
Net revenues (loss) before transfers and reversions	**102,079,921**	(379,164)	**5,999,354**	12,044,499	**108,079,275**	11,665,335
Transfers and reversions	**(6,925,294)**	(1,228,241)	**(6,925,294)**	1,228,241	**-**	-
(Decrease) increase in net assets	**95,154,627**	(1,607,405)	**12,924,648**	13,272,740	**108,079,275**	11,665,335
Net assets, beginning of year	**(75,078,101)**	(73,470,696)	**193,154,850**	179,882,110	**118,076,749**	106,411,414
Net assets, end of year	$ **20,076,526**	(75,078,101)	**206,079,498**	193,154,850	**226,156,024**	118,076,749

The significant growth in governmental net assets is the result of the Authority becoming the administrator of the Local Government Transportation Fund (otherwise known as GRIP II). This program is expected to fund 116 designated road projects throughout the State with total costs approximating $183 million. This program is expected to be funded over 3 years with the Authority having received $87.8 million in funds during FY 2008. Business-type (enterprise) activities continue to grow in terms of net assets because of the growth in loan volume and bond issuances in the PPRF program and the continual growth in the loan portfolio of the Authority's other revolving loan programs.

Financial Analysis of the Authority as a Whole - continued

Governmental-Type Activities

In FY 2008, revenues generated through State General Fund Appropriations increased by $103.2 million for the governmental-type activities. The majority of this increase, $87.8 million, is a result of receiving the seed money to begin the Local Government Transportation Fund (GRIP II) and start to fund the projects authorized under the legislation. Grant expenditures for this program amounted to $4.6 million but is expected to increase significantly in FY 2009. The Authority's total expenditures for governmental-type activities during the fiscal year 2008 were $40,094,539. The largest area of expenditures, $26,173,676, 65% of the total, was in the area of grant expense

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $82,746,570. The majority of business-type expenditures, $43,769,243, 53% of the total, was in the area of debt service. As noted above, expenditures and revenues increased due to the growth in the PPRF program.

Within the operating cost category, salaries and benefits comprise three percent (3%) of the total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were seven percent (7%) of the total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2008, the Authority has invested, net of depreciation, a total of $264,252 in capital assets in business-type activities and $113,333 in capital assets for governmental-type activities. During FY 2008, capital outlay expenditures totaled $4,722. This amount represents payment of software upgrades to the Authority's new project database program which was completed in early FY 2008. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

GASB #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The Authority does not own any infrastructure assets.

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2008, the total amount outstanding was $1.16 million (excluding the $1.520 billion in GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

During the fiscal year, the Authority issued $391.2 million in PPRF debt, primarily to directly fund loans, reimburse the PPRF loan fund for loans already made or to advance refund certain earlier bond issues.

Financial Analysis of the Authority as a Whole - continued

Bond Ratings

The Authority's bond ratings are:

Moody's	Aa2
Standard & Poor's	AA+
Fitch	AA

Economic Factors and Next Year's Budgets and Rates

The FY 2008 budget provides for the Authority's administration of six programs paid from different sources of revenue:

- Operation of the PPRF program, funded from Governmental Gross Receipts tax receipts and cigarette tax revenue;
- Administration of the Water Trust Board, funded from interest earnings on the investments of the Water Project Fund.
- Water and Wastewater Grant Fund (W/WWGF) program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) program operations, funded from the federal capitalization grant;
- The Local Governments Planning Fund, funded from the Water Planning Fund;
- The Economic Development Fund, funded from administrative fees and cigarette tax revenue.

The Authority's primary operating budget for FY2008 was $6,667,847, compared to the FY2007 budget of $6,649,027, a 0.3% increase. This nominal change in the budget reflected some increased staffing level offset by some efficiencies being realized through the addition of in-house counsel.

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

		Governmental Activities	Business-type Activities	Total
ASSETS:				
Cash and equivalents:				
Unrestricted	$	27,961,097	68,229,027	96,190,124
Restricted		102,852,041	300,904,459	403,756,500
Receivables:				
Tax revenue		643,692	7,424,228	8,067,920
Interest		18,210	8,347,617	8,365,827
Grant and other		239,530	6,958,365	7,197,895
Due from other funds (Note 4) [Internal Balances]		-	1,110,138	1,110,138
Administrative fees receivable		73	708,654	708,727
Loans receivable, net of allowance (Note 3)		2,552,905	1,040,185,642	1,042,738,547
Restricted asset - escrow		-	80,877,446	80,877,446
Capital assets, net of depreciation (Note 6)		113,333	264,652	377,985
Deferred costs, net of accumulated amortization		2,062,051	10,528,699	12,590,750
Other assets		-	51,442	51,442
TOTAL ASSETS	$	136,442,932	1,525,590,369	1,662,033,301
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued liabilities	$	138,328	1,971,625	2,109,953
Accrued payroll		11,702	100,160	111,862
Compensated absences (Note 12)		-	200,236	200,236
Notes payable (Note 9)		1,704,789	-	1,704,789
Funds held for others		-	197,721,700	197,721,700
Accrued interest		615,564	3,269,007	3,884,571
Due to other state agencies (Note 5)		-	1,075,831	1,075,831
Due to other funds (Note 5) [Internal Balances]		1,110,138	-	1,110,138
Debt service payable		5,294	61,090,830	61,096,124
Bonds payable, current, net (Note 8)		5,712,000	58,082,000	63,794,000
		9,297,815	323,511,389	332,809,204
Noncurrent liabilities:				
Bonds payable, non-current, net of bond discount/premium (Note 8)		107,068,591	995,999,482	1,103,068,073
		107,068,591	995,999,482	1,103,068,073
TOTAL LIABILITIES		116,366,406	1,319,510,871	1,435,877,277
NET ASSETS:				
Invested in capital assets		113,333	264,652	377,985
Restricted for:				
Debt service		(105,894,139)	-	(105,894,139)
Program funds		125,857,332	216,061,333	341,918,665
Unrestricted		-	(10,246,487)	(10,246,487)
TOTAL NET ASSETS		20,076,526	206,079,498	226,156,024
TOTAL LIABILITIES AND NET ASSETS	$	136,442,932	1,525,590,369	1,662,033,301

YEAR ENDED JUNE 30, 2008

		Governmental Activities	Business-type Activities	Total
EXPENSES:				
Capital financing	$	39,895,843	82,945,266	122,841,109
PROGRAM REVENUES:				
Charges for services		-	38,327,432	38,327,432
Operating grants and contributions		13,614,678	13,595,227	27,209,905
NET PROGRAM EXPENSES		(26,281,165)	(31,022,607)	(57,303,772)
GENERAL REVENUES:				
Governmental gross receipts and gross receipts taxes		-	27,198,766	27,198,766
Investment earnings		4,702,048	9,823,195	14,525,243
TOTAL GENERAL REVENUES		4,702,048	37,021,961	41,724,009
TRANSFERS				
State General Fund Appropriations		123,659,038	-	123,659,038
Internal		(6,925,294)	6,925,294	-
CHANGE IN NET ASSETS		95,154,627	12,924,648	108,079,275
NET ASSETS, BEGINNING OF FISCAL YEAR		(75,078,101)	193,154,850	118,076,749
NET ASSETS, END OF FISCAL YEAR	$	20,076,526	206,079,498	226,156,024

AS OF JUNE 30, 2008

		Economic Development Fund	UNM Health Sciences Fund	Water Project Fund
ASSETS:				
Unrestricted:				
Cash and cash equivalents	$	10,390,827	44,383	2,816,927
Receivables:				
Tax receivable		-	-	-
Interest		11,971	-	-
Other receivables		-	239,530	73
Loans receivable		1,825,254	-	316,651
		12,228,052	283,913	3,133,651
Restricted:				
Cash and cash equivalents held for others by trustee:				
Debt service		-	-	-
Bond reserve		-	1,326,996	-
Investments		-	-	6,740,826
TOTAL ASSETS	$	12,228,052	1,610,909	9,874,477
LIABILITIES:				
Accounts payable	$	11,208	-	21,600
Debt service payable		-	-	5,294
Notes payable		-	-	-
Due to other funds		1,013,246	-	28,106
TOTAL LIABILITIES		1,024,454	-	55,000
FUND BALANCES:				
Reserved for debt service		-	1,610,909	-
Unreserved:				
Special revenue funds		11,203,598	-	9,819,477
TOTAL FUND BALANCES		11,203,598	1,610,909	9,819,477
TOTAL LIABILITIES AND FUND BALANCES	$	12,228,052	1,610,909	9,874,477

LGTF (GRIP II)	Other Governmental Funds	Total Governmental Funds
-	14,708,960	27,961,097
-	643,692	643,692
-	6,239	18,210
-	-	239,603
-	411,000	2,552,905
-	15,769,891	31,415,507
-	645,398	645,398
-	-	1,326,996
86,071,771	8,067,050	100,879,647
86,071,771	24,482,339	134,267,548
1,273	115,949	150,030
-	-	5,294
-	1,704,789	1,704,789
52,961	15,825	1,110,138
54,234	1,836,563	2,970,251
86,017,537	11,389,885	99,018,331
-	11,255,891	32,278,966
86,017,537	22,645,776	131,297,297
86,071,771	24,482,339	134,267,548

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

YEAR ENDED JUNE 30, 2008

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	131,297,297
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
The cost of capital assets is		262,399
Accumulated depreciation is		(149,066)
Total capital assets, net of depreciation		113,333
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds, amortized over the life of the respective bond. Deferred costs, net, are		2,062,051
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, net of premium of $1,899,591		(112,780,591)
Accrued interest payable		(615,564)
Total long-term and other liabilities		(113,396,155)
Net assets of governmental activities (Statement of Net Assets)	$	20,076,526

YEAR ENDED JUNE 30, 2008

		Economic Development Fund	UNM Health Sciences Fund
REVENUES:			
Grant revenue	$	-	-
Interest on loans		307,068	-
Interest on investments		-	66,787
Other revenue		-	-
TOTAL REVENUES		307,068	66,787
EXPENDITURES:			
Current:			
Administrative fee		-	142,411
Professional services		42,052	48,886
Salaries and fringe benefits		130,675	-
In-state travel		8,811	-
Out-of-state travel		5,085	-
Maintenance and repairs		1,490	-
Operating costs		41,798	-
Grant expenses		-	-
Capital outlay		1,957	-
Debt service - principal		-	3,220,000
Debt service - interest		-	1,322,315
TOTAL EXPENDITURES		231,868	4,733,612
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		75,200	(4,666,825)
OTHER FINANCING SOURCES (USES):			
State General Fund appropriations		7,100,000	9,505,445
Transfers (to) from other funds		-	(1,640,888)
Transfers (to) other state agencies		-	(3,647,633)
NET OTHER FINANCING SOURCES (USES)		7,100,000	4,216,924
NET CHANGE IN FUND BALANCES		7,175,200	(449,901)
FUND BALANCES, June 30, 2007		4,028,398	2,060,810
FUND BALANCES, June 30, 2008	$	11,203,598	1,610,909

See Independent Auditors' Report and Notes to Financial Statements.

Water Project Fund	LGTF (GRIP II)	Other Governmental Funds	Total Governmental Funds
13,614,446	-	-	13,614,446
-	-	28,605	335,673
430,665	2,867,859	1,001,064	4,366,375
232	-	-	232
14,045,343	2,867,859	1,029,669	18,316,726
-	-	35,141	177,552
126,058	1,111	166,526	384,633
221,742	42,908	108,992	504,317
10,209	331	2,262	21,613
670	1,962	364	8,081
1,950	277	1,539	5,256
50,589	7,645	27,284	127,316
19,207,567	4,596,088	2,369,981	26,173,636
1,521	-	1,244	4,722
-	-	2,486,000	5,706,000
-	-	4,144,149	5,466,464
19,620,306	4,650,322	9,343,482	38,579,590
(5,574,963)	(1,782,463)	(8,313,813)	(20,262,864)
7,847,868	87,800,000	11,405,725	123,659,038
-	-	(5,284,406)	(6,925,294)
-	-	(3,376,935)	(7,024,568)
7,847,868	87,800,000	2,744,384	109,709,176
2,272,905	86,017,537	(5,569,429)	89,446,312
7,546,572	-	28,215,205	41,850,985
9,819,477	86,017,537	22,645,776	131,297,297

YEAR ENDED JUNE 30, 2008

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$	89,446,312
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 decrease (increase) in the liabilities for the fiscal year was:		
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities, these payments are reported as a reduction of the liability. In the current period, these principal payment amounts were		5,706,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was		52,274

YEAR ENDED JUNE 30, 2008

Change from prior year in amortization of bond issuance costs:		
Deferred issuance costs FY07 (p. 17 PY)	$ 2,251,383	
Deferred issuance costs FY08 (p. 15 CY)	2,062,051	
		(189,332)
Change from prior year in amorization of bond premium/discount:		
Amortization of bond premium/discount FY07 (p. 72 PY)	2,071,134	
Amortization of bond premium/discount FY08 (p. 71 CY)	1,899,591	
		171,543
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 were:		
Capital outlay	4,722	
Depreciation expense	(36,892)	
Excess of depreciation expense over capital outlay		(32,170)
Decrease in capital assets		-
Change in net assets of governmental activities (Statement of Activities)		$ 95,154,627

AS OF JUNE 30, 2008

		Operating Fund	Public Project Revolving Fund	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund
ASSETS:						
Current:						
Cash and cash equivalents	$	-	54,928,491	7,757,830	1,961,825	-
Receivables:						
Tax revenue		-	7,394,802	3,460	-	25,966
Interest		-	8,236,381	109,542	-	-
Grant and other		-	3,720,220	1,897,283	1,340,862	-
Due from other state agencies		-	-	-	-	-
Due from other funds		-	2,152,874	-	-	-
Administrative fees receivable		-	574,782	13,311	120,407	-
Total current assets		-	77,007,550	9,781,426	3,423,094	25,966
Loans receivable, net of allowance		-	1,001,731,515	30,907,764	-	7,176,671
Securities		-	-	-	-	-
Restricted assets - cash and cash equivalents		-	284,148,652	11,369,863	-	2,141,699
Escrow		-	80,877,446	-	-	-
Capital Assets:						
Depreciable property and equipment, net		-	188,450	11,798	53,629	1,339
Deferred charges		-	10,528,699	-	-	-
Other assets		-	51,442	-	-	-
Total non-current assets		-	1,377,526,204	42,289,425	53,629	9,319,709
TOTAL ASSETS	$	-	1,454,533,754	52,070,851	3,476,723	9,345,675
LIABILITIES:						
Current liabilities:						
Accounts payable and other liabilities	$	-	1,627,309	309,808	9,397	4,416
Accrued payroll, fringe benefits and compensated absences		-	271,336	6,064	15,735	1,208
Accrued interest payable		-	3,248,343	-	-	-
Debt service payable		-	60,488,368	250,746	-	344,498
Funds held for others		-	196,132,082	115,736	-	1,223,090
Due to other state agencies		-	-	1,075,831	-	-
Due to other funds		-	281,851	52,734	82,247	118,307
Line of Credit		-	-	-	-	-
Bonds payable, current, net		-	57,957,000	-	-	-
		-	320,006,289	1,810,919	107,379	1,691,519
Noncurrent liabilities:						
Bonds payable, noncurrent, net		-	993,874,482	-	-	-
		-	993,874,482	-	-	-
TOTAL LIABILITIES		-	1,313,880,771	1,810,919	107,379	1,691,519
NET ASSETS:						
Invested in capital assets		-	188,450	11,798	53,629	1,339
Restricted for:						
Program funds		-	140,464,533	50,248,134	-	7,652,817
Unrestricted		-	-	-	3,315,715	-
TOTAL NET ASSETS		-	140,652,983	50,259,932	3,369,344	7,654,156
TOTAL LIABILITIES AND NET ASSETS	$	-	1,454,533,754	52,070,851	3,476,723	9,345,675

Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	NM Tax Credits	Energy Efficiency	Total
165,350	-	3,415,530	-	-	-	68,229,026
-	-	-	-	-	-	7,424,228
1,694	-	-	-	-	-	8,347,617
-	-	-	-	-	-	6,958,365
-	-	-	-	-	-	-
-	-	-	-	-	-	2,152,874
154	-	-	-	-	-	708,654
167,198	-	3,415,530	-	-	-	93,820,764
369,692	-	-	-	-	-	1,040,185,642
-	-	-	-	-	-	-
23,549	275,058	-	2,945,638	-	-	300,904,459
-	-	-	-	-	-	80,877,446
						-
2,341	1,790	1,508	-	2,694	1,102	264,651
-	-	-	-	-	-	10,528,699
-	-	-	-	-	-	51,442
395,582	276,848	1,508	2,945,638	2,694	1,102	1,432,812,339
562,780	276,848	3,417,038	2,945,638	2,694	1,102	1,526,633,103
1,301	-	-	-	19,395	-	1,971,626
447	129	306	-	5,125	47	300,397
-	-	-	20,664	-	-	3,269,007
7,218	-	-	-	-	-	61,090,830
792	250,000	-	-	-	-	197,721,700
-	-	-	-	-	-	1,075,831
3,648	82,784	1,839	-	404,894	14,432	1,042,736
-	-	-	-	-	-	-
-	-	-	125,000	-	-	58,082,000
13,406	332,913	2,145	145,664	429,414	14,479	324,554,127
-	-	-	2,125,000	-	-	995,999,482
-	-	-	2,125,000	-	-	995,999,482
13,406	332,913	2,145	2,270,664	429,414	14,479	1,320,553,609
2,341	1,790	1,508	-	2,694	1,102	264,651
547,033	(57,855)	1,493,404	471,402	-	(14,479)	200,804,989
-	-	1,919,981	203,572	(429,414)	-	5,009,854
549,374	(56,065)	3,414,893	674,974	(426,720)	(13,377)	206,079,494
562,780	276,848	3,417,038	2,945,638	2,694	1,102	1,526,633,103

YEAR ENDED JUNE 30, 2008

	Operating Fund	Public Project Revolving Fund	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund
OPERATING REVENUES:					
Tax revenue	$ -	27,169,340	-	-	-
Federal grant revenue	-	-	13,595,226	-	-
Administrative fees	-	2,786,246	59,173	2,161,017	-
Interest on loans	-	32,144,961	441,718	-	-
Interest on investments	-	8,436,481	807,203	62,652	295,078
TOTAL OPERATING REVENUES	-	70,537,028	14,903,320	2,223,669	295,078
OPERATING EXPENSES:					
Grant expense	-	24,900	-	-	-
Bond issuance costs	-	543,018	-	-	-
Administrative fees	-	132,638	-	-	-
Professional services	-	2,953,663	220,777	232,293	82,116
Salaries and fringe benefits	-	1,907,427	204,503	363,680	51,642
In-state travel	-	34,379	5,163	11,168	1,246
Out of state travel	-	20,129	4,656	5,779	787
Utilities	-	-	-	-	119
Maintenance and repairs	-	19,499	6,834	4,521	458
Supplies	-	1,509	3,859	5,043	115
Operating costs	1	557,939	131,638	94,382	9,527
Depreciation	-	33,647	9,197	12,471	160
Debt service - interest expense	-	43,639,509	-	-	-
TOTAL OPERATING EXPENSES	1	49,868,257	586,627	729,337	146,170
OPERATING INCOME (LOSS)	(1)	20,668,771	14,316,693	1,494,332	148,908
NON-OPERATING REVENUES (EXPENSES):					
Miscellaneous revenue	-	-	3,460	-	25,966
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS	(1)	20,668,771	14,320,153	1,494,332	174,874
TRANSFERS:					
Transfers in (out)	(2,091,026)	6,657,839	2,089,080	(861,480)	-
Transfers from (to) other state agencies	-	(25,991,563)	(4,984,752)	-	-
Transfers from (to) local governments	-	-	-	-	-
TOTAL TRANSFERS	(2,091,026)	(19,333,724)	(2,895,672)	(861,480)	-
INCREASE (DECREASE) IN NET ASSETS	(2,091,027)	1,335,047	11,424,481	632,852	174,874
TOTAL NET ASSETS, June 30, 2007	2,091,027	139,317,936	38,835,451	2,736,492	7,479,282
TOTAL NET ASSETS, June 30, 2008	$ -	140,652,983	50,259,932	3,369,344	7,654,156

Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	NM Tax Credits	Energy Efficiency	Total
-	-	-	-	-	-	27,169,340
-	-	-	-	-	-	13,595,226
989	-	722,444	-	-	-	5,729,869
10,884	-	-	-	-	-	32,597,563
7,025	10,603	94,540	109,611	-	-	9,823,193
18,898	10,603	816,984	109,611	-	-	88,915,191
-	-	181,475	-	-	-	206,375
-	-	-	-	-	-	543,018
-	-	-	-	-	-	132,638
5,064	2,785	2,330	168	79,823	1,568	3,580,587
20,584	4,840	8,331	-	136,589	957	2,698,553
823	23	692	-	5,880	68	59,442
614	(56)	(20)	-	-	-	31,889
77	7	18	-	602	2	825
276	161	149	-	1,172	65	33,135
695	(8)	-	-	-	-	11,213
5,174	2,740	3,937	-	38,874	1,227	845,439
320	160	160	-	320	160	56,595
-	-	-	129,734	-	-	43,769,243
33,627	10,652	197,072	129,902	263,260	4,047	51,968,952
(14,729)	(49)	619,912	(20,291)	(263,260)	(4,047)	36,946,239
-	-	-	-	-	-	29,426
(14,729)	(49)	619,912	(20,291)	(263,260)	(4,047)	36,975,665
38,215	-	875,000	217,666	-	-	6,925,294
-	-	-	-	-	-	(30,976,315)
-	-	-	-	-	-	-
38,215	-	875,000	217,666	-	-	(24,051,021)
23,486	(49)	1,494,912	197,375	(263,260)	(4,047)	12,924,644
525,888	(56,016)	1,919,981	477,599	(163,460)	(9,330)	193,154,850
549,374	(56,065)	3,414,893	674,974	(426,720)	(13,377)	206,079,494

YEAR ENDED JUNE 30, 2008		Operating Fund	Public Project Revolving Fund	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash paid for employee services	$	(210,737)	(4,726,801)	(204,967)	(354,408)
Cash paid to vendors for services		(2,149,468)	(6,775,058)	(213,690)	(292,758)
Bond issuance costs		-	(543,018)	-	-
Interest expense paid		-	(33,451,903)	-	-
Grants awarded		-	(24,900)	-	-
Tax revenue		-	27,169,340	-	-
Cash received from federal government for revolving loans		-	-	13,234,531	-
Interest income received		-	40,330,584	1,248,921	62,652
Administrative fees received		1,914,100	102,328	59,173	1,876,999
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		(446,105)	22,080,572	14,123,968	1,292,485
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:					
Operating transfers, net		-	6,657,839	2,089,080	(861,480)
Cash paid to subrecipients for services		-	(25,796,810)	(4,984,752)	-
Cash provided (used) by funds held for others		-	121,863,290	(279,814)	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES		-	102,724,319	(3,175,486)	(861,480)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Securities		-	-	-	-
Escrow		-	2,715,627	-	-
Loans funded		-	(386,074,195)	(10,298,773)	-
Loan payments received		-	56,098,407	962,520	-
Bonds issued		-	391,245,000	-	-
Payment of bonds		-	(37,660,000)	-	-
Debt service		-	17,152,452	51,994	-
Line of credit		-	(31,338,974)	-	-
Capital asset purchases		-	(19,547)	-	(7,247)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		-	12,118,770	(9,284,259)	(7,247)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(446,105)	136,923,661	1,664,223	423,758
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2007		446,105	202,153,482	17,463,470	1,538,067
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2008	$	-	339,077,143	19,127,693	1,961,825
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASHED USED BY OPERATING ACTIVITIES - OPERATING INCOME:	$	(1)	(1,335,047)	11,424,481	632,852
Adjustments to operating income:					
Depreciation and amortization		-	33,647	9,197	12,471
Net transfers		(2,091,026)	19,333,724	2,895,672	861,480
(Increase) decrease in prepaids and receivables		1,914,100	(7,187,467)	240,241	(284,018)
Increase (decrease) in payables and other accrued liabilities		(269,178)	8,565,621	(445,623)	69,700
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$	(446,105)	22,080,572	14,123,968	1,292,485

Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	NM Tax Credits Fund	Energy Efficiency Fund	Total
(25,336)	(20,631)	(4,910)	(8,798)	-	(132,188)	(909)	(5,689,685)
(14,249)	(17,122)	5,284	(7,235)	(167)	124,689	1,120	(9,338,654)
-	-	-	-	-	-	-	(543,018)
-	-	-	-	(130,882)	-	-	(33,582,785)
-	-	-	(181,475)	-	-	-	(206,375)
-	-	-	-	-	-	-	27,169,340
-	-	-	-	-	-	-	13,234,531
289,550	18,066	10,603	94,540	109,611	-	-	42,164,527
-	989	-	722,444	-	-	-	4,676,033
249,965	(18,698)	10,977	619,476	(21,438)	(7,499)	211	37,883,914
-	38,215	-	875,000	217,666	-	-	9,016,320
-	-	-	-	-	-	-	(30,781,562)
1,200,778	25	-	-	-	-	-	122,784,279
1,200,778	38,240	-	875,000	217,666	-	-	101,019,037
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2,715,627
(3,200,000)	-	-	-	-	-	-	(399,572,968)
327,108	31,296	-	-	-	-	-	57,419,331
-	-	-	-	-	-	-	391,245,000
-	-	-	-	(125,000)	-	-	(37,785,000)
284,698	-	-	-	-	-	-	17,489,144
-	-	-	-	-	-	-	(31,338,974)
(277)	(463)	(376)	(299)	-	(559)	(211)	(28,979)
(2,588,471)	30,833	(376)	(299)	(125,000)	(559)	(211)	143,181
(1,137,728)	50,375	10,601	1,494,177	71,228	(8,058)	-	139,046,132
3,279,427	138,524	264,457	1,921,353	2,874,410	-	-	230,079,295
2,141,699	188,899	275,058	3,415,530	2,945,638	(8,058)	-	369,125,427
174,874	23,486	(49)	1,494,912	197,375	(263,260)	(4,047)	12,345,576
160	320	160	160	-	320	160	56,595
-	(38,215)	-	(875,000)	(217,666)	-	-	19,868,969
(5,527)	157	-	-	-	-	-	(5,322,514)
80,458	(4,446)	10,866	(596)	(1,147)	255,441	4,098	8,265,194
249,965	(18,698)	10,977	619,476	(21,438)	(7,499)	211	37,883,914

Statement of Fiduciary Assets and Liabilities - Agency Funds

AS OF JUNE 30, 2007

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	143,033,858
Expense funds		237,132,982
Bond reserve funds		6,000
TOTAL ASSETS	$	380,172,840
LIABILITIES:		
Accounts payable	$	3,923,929
Debt service payable		329,378,837
Funds held for the New Mexico Department of Transportation		46,870,074
TOTAL LIABILITIES	$	380,172,840

NATURE OF ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act) is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer; the Secretary of the Department of Finance and Administration; the Secretary of Economic Development; the Secretary of Energy, Minerals and Natural Resources; the Secretary of the Environment Department; the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, appoints to the Authority Board, the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

Bonds and other obligations issued by the Authority under the provisions of the Act are not a debt or liability of the state or any subdivision thereof.

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

The financial reporting entity as defined by GASB No. 39 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

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

- **Basic Financial Statements**

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

- **Government-wide and Fund Financial Statements**

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

1. 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 cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipt taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. **Direct expenses** are those that are clearly identifiable with a specific function or segment. **Program revenues** include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as **general revenues**.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting**

The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

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

The following fund types and account groups are used by the Authority:

Governmental Fund Types - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

- Economic Development Fund
- UNM Health Sciences Fund
- Water Project Fund
- LGTF (GRIP II)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

Special Revenue Fund - State Building Program-Cigarette Tax. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation, provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax, with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act, in the amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds, or any payments for refunding or redemption premiums on the bonds, and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Special Revenue Fund - Water and Wastewater Project Grant Fund. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Special Revenue Funds - continued

Special Revenue Fund - Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 Legislative Session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Project Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Special Revenue Fund - Water and Wastewater Planning Grant Fund. The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant must not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

Special Revenue Fund - Emergency Drought Water Program. Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests, the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Special Revenue Funds - continued

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

Special Revenue Fund – Local Government Transportation Fund. In 2007, New Mexico Legislature authorized the establishment of the Local Government Transportation Fund within the New Mexico Finance Authority. This fund provides funding for 116 local government transportation projects as approved by the legislature. The Fund consists of general fund appropriations and severance tax bond proceeds appropriated to the fund in fiscal years 2007 through 2009. Projects are funded based upon project readiness. The interest earnings in the fund are subject to appropriation by legislature.

Special Revenue Fund – Dairy Biomass Loan Fund. This fund was created by the 2006 Legislature to convert dairy waste to energy statewide. The Authority is working with the New Mexico Energy, Minerals and Natural Resources Department to identify biomass projects that support renewable energy development.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle. There was an additional bond issuance in September 2002 (2002A).

Debt Service Fund - Workers' Compensation Financing Fund. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments, for the purpose of financing an office building for the Workers' Compensation Administration.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Debt Service Funds - continued

Debt Service Fund - Workers' Compensation Financing Fund - continued. The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by the Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the Americans with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint power agreement to accomplish this purpose. A total of $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of calendar quarter, after all current obligations and any sinking fund requirements are met, shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

Debt Service Fund - State Capitol Improvement Financing Fund. The Laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a state building located adjacent to the State Capitol in Santa Fe known as the New Mexico State Library, and for relocation-associated renovations in the State Capitol. A total of $510,000 of revenue bonds were issued on May 17, 1999 and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Debt Service Funds - continued

Debt Service Fund - State Capitol Improvement Financing Fund- continued. repair fund shall be distributed by the State Treasurer to the Authority, and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

Debt Service Fund - State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of 1) purchasing the National Education Association Building on South Capitol Street in Santa Fe, New Mexico, 2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico, and 3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition, to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may include the acquisition of the Public Employees

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Debt Service Funds - continued

Debt Service Fund - State Office Building Financing Fund - continued. Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

Debt Service Fund - UNM Health Sciences Fund. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.37% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.79% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

Proprietary Fund Types - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business-type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The enterprise funds are as follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Enterprise Funds - continued

Enterprise Fund - Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund - continued. deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt on the 2004A Bonds for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

Enterprise Funds - continued

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

Enterprise Fund - Cigarette Tax Revenue Bond – Behavioral Health Capital Fund (BHCF). The BHCF was set up to provide funding for capital projects to non-profit providers to increase health care services to sick and indigent patients. The 2004 Legislature created this fund to provide low cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. The Authority was authorized to issue up to $2,500,000 in bonds, secured by a portion of the net cigarette tax receipts collected by the State and distributed to the Authority. A private placement of $2,500,000 in bonds was issued during fiscal year 2006.

Enterprise Fund – Local Transportation Infrastructure Fund (Local Road Fund). This fund was created to provide local government not eligible for Federal funding, whose needs have not been met by the existing Local Government Road Fund, with grants and low cost financial assistance for transportation projects. The program is jointly administered by the Authority and the NMDOT. The NMDOT determines feasibility and priority of recommended projects and the Authority makes loans and grants to the recommended projects. Grants are capped at 25 percent of the project cost.

Enterprise Fund – New Market Tax Credits Fund. During FY 2007 a team comprised of staff from the Authority, the New Mexico Economic Development Department and the City of Albuquerque successfully submitted an application for the federal New Market Tax Credits. Though it's a Limited Liability Company, Finance New Mexico LLC, the Authority has received an allocation of $110,000,000 to encourage capital infusion throughout New Mexico by providing private business greater access to capital in rural or undeserved areas of the state.. The status of these allocations is generally made in October and it is anticipated that the program would go through a "ramp up" period during the remainder of FY 2008. The fund was created to accumulate costs associated with the application process and other program start-up costs. Ultimately, this program will be accounted for and operated as an LLC separate and distinct from the Authority.

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

- **Basis of Presentation - Fund Accounting - continued**

Enterprise Funds - continued

Enterprise Fund – Energy Efficiency Fund. This fund was established as an innovative financing mechanism for state agencies, universities and public schools to fund and implement renovations to existing facilities that will promote renewable energy and other energy efficiency improvements to these facilities. This fund will be jointly administered by the Authority and the Department of Energy, Minerals and Natural Resources. The Authority will issue PPRF bonds that are backed by State GRT and sized to the cash flow energy savings generated from the projects. This program is in a start-up phase and as yet, has not issued any bonds.

The Authority's fiduciary funds are agency funds. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (Note 13).

- **Measurement Focus and Basis of Accounting**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized when the underlying transaction has occurred. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Measurement Focus and Basis of Accounting - continued**

enough thereafter to be used to pay liabilities of the current period). For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2008 was $46,538,759.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted net assets are available for expenses, unrestricted funds are applied first.

- **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer. The cash on deposit with the State Treasurer is invested in a money market fund registered with the Securities and Exchange Commission rated AAAm by Standard & Poor's.

In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority.

- **Loans**

Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All significant loans are to

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Loans - continued**

governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no material loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on non-accrual status.

- **Allowance for Loan Losses**

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. At June 30, 2008, it was management's opinion that all governmental fund receivables, as well as outstanding receivables from the Drinking Water State Revolving Fund, Primary Care Capital Fund and Behavioral Health Capital Fund, were fully collectible and, therefore, no allowance was provided for at June 30, 2008. The Authority has not experienced any losses on its loan portfolio.

- **Restricted Assets**

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

- **Budgets and Budgetary Accounting**

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding, and therefore are not presented in the financial statements. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Capital Assets**

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $5,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

- **Income Taxes**

The Authority is a tax-exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

- **Compensated Absences**

Full-time employees are entitled to fifteen days vacation leave with ten years or less employment with the Authority. Employees with more than ten years receive twenty days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid vacation leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

- **Cash Flows**

For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

- **Bond Discounts, Premiums and Issuance Costs**

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Bond Discounts, Premiums and Issuance Costs - continued**

costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

- **Fund Equity**

Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements, which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

- **Net Assets**

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

Investment in capital assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets that have third-party (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

- **Use of Estimates**

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

- **Interfund and Interagency Transactions**

Interfund and interagency transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Interfund and Interagency Transactions - continued**

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE

Funds held for others and short-term investments are held at the trustee in the names of the applicable government entity and the Authority. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	147,117,448	147,117,448
The Primary Care Capital Fund held at the State Treasurer's Office		545,566	545,566
State Treasurer's Office cash held at Bank of Albuquerque in money market accounts		21,600,027	21,600,027
Bank of Albuquerque trust accounts		246,849,598	246,849,598
Reserve on Bond Payable held in Bank of America		279,359	279,359
Wells Fargo operating accounts (collateralized at 50%)		1,100,832	1,141,690
Cash held at the Reserve		82,453,794	82,453,795
		499,946,624	499,987,483
Agency Fund:			
Money market accounts invested in Bank of Albuquerque		380,172,840	380,172,840
	$	880,119,464	880,160,323

2. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued

The Authority's State Treasurer funds are contained in the New Mexico *GROW* LGIP, a Securities and Exchange Commission registered money market fund rated AAAm by Standard & Poor's, and at June 30, 2008 are valued at $147,117,448, with a 46-day WAM.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The sources of funds are financing program bond proceeds, pledged revenues 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.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its collateral securities that are in the possession of an outside party. All are fully collateralized and the collateral is held in the Authority's name.

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government.

Concentration of Credit Risk. Concentration of credit risk is defined as investments of more than 5% in any one issuer.

Interest Rate Risk. Interest rate risk is the risk that interest rate fluctuations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the value of securities held in a collateral portfolio will decline if market interest rates rise. In this event, the financial institution is required to provide additional collateral necessary to comply with New Mexico State Statute. Therefore, funds are not susceptible to interest rate risk as they are all fully collateralized.

3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES

Loan receivable balances consist of the following at June 30, 2008:

Enterprise funds:	
Public Projects Revolving Loan Fund, net of allowance of $1,067,970	$ 1,001,731,515
Drinking Water State Revolving Loan Fund	30,907,764
Primary Care Capital Fund	7,176,671
Behavioral Health Capital Fund	369,692
	1,040,185,642
Governmental funds:	
Smart Money Loans	1,825,254
C.O.P.S.	411,000
Water Trust Board Loan/Grants	316,651
	2,552,905
	$ 1,042,738,547

- **Public Projects Revolving Loan Fund**

The Public Projects Revolving Loan Fund loans receivable balance at June 30, 2008 is $1,001,731,515, net of an allowance for loan loss of $1,067,970, and consists of loans made to various entities.

Terms for the Public Projects Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

	Principal	Interest	Total
July 1, 2008 to June 30, 2009	$ 63,106,681	37,947,082	101,053,763
July 1, 2009 to maturity	939,692,804	376,210,888	1,315,903,692
	$ 1,002,799,485	414,157,970	1,416,957,455

3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued

- **Drinking Water State Revolving Loan Fund**

Terms for the Drinking Water State Revolving loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2008 to June 30, 2009	$	1,198,908	562,504	1,761,412
July 1, 2009 to maturity		29,708,856	5,922,559	35,631,415
	$	30,907,764	6,485,063	37,392,827

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

- **Primary Care Capital Fund**

Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

		Principal	Interest	Total
July 1, 2008 to June 30, 2009	$	915,959	206,455	1,122,414
July 1, 2009 to maturity		6,260,712	1,211,732	7,472,444
	$	7,176,671	1,418,187	8,594,858

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued

- **Behavioral Health Capital Fund**

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2008 to June 30, 2009	$	32,237	10,167	42,404
July 1, 2009 to maturity		337,455	48,231	385,686
	$	369,692	58,398	428,090

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

- **"SMART" Money Loans**

The "SMART" Money Loan Participation Program brings the Authority and "SMART Partner Banks" together as partners to share risk while lowering the overall cost of borrowing for the business by the Authority offering below-market rates on its portion of the loan to a New Mexico business. The Authority participates in 49% of the total loan amount. Interest rates range from 5% to 8%.

The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

		Principal	Interest	Total
July 1, 2008 to June 30, 2009	$	-	-	-
July 1, 2009 to maturity		1,825,254	-	1,825,254
	$	1,825,254	-	1,825,254

No allowance for uncollectible loans has been established at this time. The loans are secured by commercial real estate mortgages.

3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued

- **C.O.P.S.**

The C.O.P.S. loans vary, with interest rates ranging from 4.75% to 6.618%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2008 to June 30, 2009	$	62,000	24,358	86,358
July 1, 2009 to maturity		349,000	68,501	417,501
	$	411,000	92,859	503,859

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

- **Water Trust Board Loan/Grants**

The Water Trust Board established a loan element whereby grantees are required to repay 10% of the total amount they receive. Interest rates vary, based on the borrower's ability to repay, but range from 4% to 5%.

The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2008 to June 30, 2009	$	16,201	-	16,201
July 1, 2009 to maturity		300,450	-	300,450
	$	316,651	-	316,651

Allowance has not yet been established as these loans were established late in fiscal year 2008 and repayments have not been made. An appropriate allowance will be made in fiscal year 2009.

4. DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation.

Interfund receivables and payables as of June 30, 2008 consist of the following:

		Due to: Enterprise Funds Public Project Revolving Funds 200's
Due From:		
Governmental Funds:		
Metro Court	304	$ -
Water and Wastewater Grant	307	6,707
Water Project Fund	309	28,106
Emergency Drought Relief	312	-
Water Planning Grant	313	9,118
Economic Development	314	1,013,246
LGTF - GRIP II	323	52,961
Total Governmental Funds		1,110,138
Enteprise Funds:		
GRIP Fund	104	82,247
Drinking Water	500	52,734
Child Care	319	82,784
Behavioral Health	311	3,648
Local Road Fund	504	1,839
Primary Care	501	118,307
NM Tax Credit	600	412,952
Energy Efficiency	601	14,432
PPRF	200s	273,793
Total Enterprise Funds		1,042,736
		$ 2,152,874

4. DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued

Transfers between funds for the year ended June 30, 2008 are as follows:

		UNM Cig Tax	UNM Health Sci.	Metro Court	State Bldg. GRT	Operating
Transfers In:						
Governmental Funds:						
UNM Cig Tax	$	-	-	-	-	
UNM Health Sciences		-	-	-	-	-
Metro Court		-	-	-	-	-
State Building GRT		-	-	-	-	-
		-	-	-	-	-
Enterprise Funds:						
Operating Fund		-	-	-	-	-
GRIP Admin.		-	-	-	-	
PPRF		7,144,348	6,525,565		3,055,780	8,591,026
Behavioral Health		-	-	-	-	-
Cigarette Tax Rev. Bond		255,882	-	-	-	-
Drinking Water		-	-	-	-	-
Local Road Fund		-	-	-	-	-
	$	7,400,230	6,525,565	-	3,055,780	8,591,026

Transfers in and out of the governmental funds are legislatively appropriated revenues to pay debt service.

Enterprise fund transfers in and out are primarily movement of loan proceeds out to the borrowers to pay for program and construction costs.

$6,925,294 was transferred from the enterprise funds to the governmental funds for fiscal year 2008.

The following Enterprise Fund owed the following amount to other state agencies at June 30, 2008:

The Drinking Water Revolving Loan Fund owed $1,075,831 to the Environment Department for technical set-asides.

Transfers Out							
GRIP Admin.	PPRF	Behav. Health	Cig Tax	Drinking Water	Local Road	Total	Net Transfers In (Out)
-	-	-	-	-	-	-	(7,400,230)
-	4,884,677	-	-	-	-	4,884,677	(1,640,888)
-	2,357,229	-	-	-	-	2,357,229	2,357,229
-	2,814,375	-	-	-	-	2,814,375	(241,405)
-	10,056,281	-	-	-	-	10,056,281	(6,925,294)
-	6,500,000	-	-	-	-	6,500,000	(2,091,026)
-	13,520	-	-	-	-	13,520	(861,480)
-	-	-	-	-	-	25,316,719	6,657,838
-	-	-	38,215	-	-	38,215	38,215
-	-	-	-	-	-	255,882	217,667
-	2,089,080	-	-	-	-	2,089,080	2,089,080
875,000	-	-	-	-	-	875,000	875,000
875,000	18,658,881	-	38,215	-	-	45,144,697	-

5. OPERATING TRANSFERS

Governmental Funds Operating Transfers from (to) Other State Agencies

State Agency	Agency Fund Number		Economic Development Fund	UNM Health Sciences Fund	Other Governmental Funds	Total
Dept. of Finance & Administration	34100	$	7,100,000	9,505,445	107,053,593	123,659,038
University of New Mexico	95100		-	(3,647,633)	-	(3,647,633)
New Mexico Department of Workforce Solutions	63100		-	-	(557,079)	(557,079)
New Mexico State University	95200		-	-	(2,819,856)	(2,819,856)
		$	7,100,000	5,857,812	103,676,658	116,634,470

Enterprise Funds Operating Transfers from (to) Other State Agencies

State Agency	Agency Fund Number		Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund
Bernalillo Metropolitan Court	24400	$	(950,000)	-
University of New Mexico	95100		(24,177,732)	(4,984,752)
NM Department of Health	66500		(287,297)	-
NM Environment Department	66700		(576,534)	-
		$	(25,991,563)	(4,984,752)

The Authority received $123,659,038 in New Mexico state general fund appropriations from the Department of Finance and Administration.

5. OPERATING TRANSFERS - continued

The following enterprise funds made the following transfers to other state agencies during the year ended June 30, 2008:

The PPRF Series 2005 C & D Metro Court Refunding transferred $950,000 in rebates to Metro Court.

The Drinking Water Revolving Fund transferred $4,984,752 to the New Mexico Environment Department (NMED) for billings, and the PPRF Direct Cash Loans transferred $576,534 to the NMED for debt service for PPRF administration.

The PPRF Series 2005 E Fund transferred $24,177,732 to the University of New Mexico (UNM) for reimbursement of construction costs related to the UNM Cancer Center.

The PPRF Direct Cash Loans transferred $287,297 to Gila Regional Medical Center for payment of debt service.

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2008:

The UNM Health Sciences 2004A transferred $3,647,633 for revenue rebate to UNM from cigarette tax collections.

The Workers' Compensation Series 1996 transferred $557,079 for revenue rebate to Workers' Compensation.

The State Building GRT Purchase Fund transferred $2,819,856 in program fund requests to project draw requests and debt service payments.

6. CAPITAL ASSETS

A summary of changes in capital assets follows:

Business-type Activities		Balance June 30, 2007	Additions	Adjustments/ Deletions	Balance June 30, 2008
Depreciable assets:					
Furniture and fixtures at historical cost	$	98,166	-	-	98,166
Computer hardware and software		388,702	20,739	-	409,441
Machinery and equipment		24,768	-	-	24,768
Leasehold improvements		26,932	8,240	-	35,172
		538,568	28,979	-	567,547
Accumulated depreciation:					
Furniture and fixtures		(144,059)	(9,789)	-	(153,848)
Computer hardware and software		(87,843)	(40,829)	-	(128,672)
Machinery and equipment		(8,512)	(2,470)	-	(10,982)
Leasehold improvements		(5,886)	(3,507)	-	(9,393)
		(246,300)	(56,595)	-	302,895
Net total	$	292,268	(27,616)	-	264,652

Depreciation expense was $15,060 in the Operating Fund, $18,587 in the Public Project Revolving Fund, $9,197 in the Drinking Water Revolving Loan Fund, $12,470 in the GRIP Administrative Fund, $160 in the Primary Care Fund, $320 in the Behavioral Health Capital Fund, $160 in the Child Care Revolving Loan Fund, $160 in the Local Road Fund, $320 in the Tax Credits Fund and $160 in the Energy Efficiency Fund for the year ended June 30, 2008.

6. CAPITAL ASSETS - continued

Governmental Activities		Balance June 30, 2007	Additions	Adjustments/ Deletions	Balance June 30, 2008
Depreciable assets:					
Furniture and fixtures at historical cost	$	100,636	-	-	100,636
Computer hardware and software		119,374	4,722	-	124,096
Machinery and equipment		24,349	-	-	24,349
Leasehold improvements		13,318	-	-	13,318
		257,677	4,722	-	262,399
Accumulated depreciation:					
Furniture and fixtures		(59,121)	(14,149)	-	(73,270)
Computer hardware and software		(37,854)	(17,448)	-	(55,302)
Machinery and equipment		(10,578)	(3,423)	-	(14,001)
Leasehold improvements		(4,621)	(1,872)	-	(6,493)
Accumulated depreciation		(112,174)	(36,892)	-	(149,066)
Net total	$	145,503	(32,170)	-	113,333

7. BONDS PAYABLE

Bonds outstanding as of June 30, 2008, for the Authority's enterprise funds consist of the following:

- **Public Project Revolving Funds (PPRF)**

PPRF Series 1999A, 1999B, 1999C and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax exempt) and Series 1999 and 1999D (taxable), in the aggregate principal amounts of $13,135,000, $3,025,000, $2,265,000 and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

PPRF Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A Bonds, in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

PPRF Series 2000B and C. On September 1, 2000, the Authority issued $7,670,000 of Public Project Revolving Fund, Series 2000B and $28,850,000 Series 2000C Bonds. The Series 2000B and C bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various Governmental Units and to reimburse the Authority for and to finance the costs of issuance of the Series 2000B and C Bonds.

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to: 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to: 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to: 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to: 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

PPRF Series 2005F. On December 7, 2005, the Authority issued $21,950,000 of Subordinate Lien Public Project Revolving Fund Series 2005 F Revenue Bonds. The 2005 F Series Bonds were issued to: 1) directly fund, or to reimburse the Public Projects Revolving Fund for, loans made by the NMFA to certain governmental entities for the purpose of financing public projects, 2) purchase a Reserve Instrument, and 3) pay the cost of issuance of the Series 2005 F Bonds.

PPRF Series 2006A. On March 28, 2006, the Authority issued $49,545,000 of Subordinate Lien Public Project Revolving Fund Series 2006 A Revenue Bonds. The 2006 A Series Bonds were issued to: 1) originate loans or reimburse the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities that will be or were used to finance certain projects for such governmental units, 2) purchase a reserve surety bond for deposit to the debt service reserve account established for the Series 2006 A Bonds, and 3) pay costs incurred in connection with the issuance of the Series 2006 A Bonds.

PPRF Series 2006B. On June 27, 2006, the Authority issued $38,260,000 of Senior Lien Public Project Revolving Fund Series 2006 B Revenue Bonds. The 2006 B Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units and, 2) pay costs incurred in connection with the issuance of the Series 2006 B Bonds.

7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

PPRF Series 2006C. On November 7, 2006, the Authority issued $39,860,000 of Subordinate Lien Public Project Revolving Fund Series 2006 C Revenue Bonds. The 2006 C Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, including a $21,650,229 loan to the Jicarilla Apache Tribal Utility Authority; 2) purchase a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2006 C Bonds; and 3) pay costs incurred with the issuance of the Series 2006 C Bonds.

PPRF Series 2006D. On September 6, 2006, the Authority issued $54,600,000 of Senior Lien Public Project Revolving Fund Series 2006 D Revenue Bonds. The 2006 D Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, 2) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue Bonds, Series 2006 A (PERA Building Acquisition) (the "2006A Bonds") to finance the acquisition and improvement of a public building for use by the State with proceeds of the 2006 A Bonds, 3) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue bonds Series 2006 B (Refunding Project) (the "2006 B Bonds") to refund the outstanding NMFA State Office Building Bonds Series 2002 A with proceeds of the Series 2006 B Bonds, and 4) pay costs incurred in connection with the issuance of the Series 2006 D Bonds.

PPRF Series 2007A. On February 27, 2007, the Authority issued $34,010,000 of Subordinate Lien Public Project Revolving Fund Series 2007 A Revenue Bonds. The 2007 A Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; 2) purchase a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007 A Bonds; 3) pay accrued interest; and 4) pay costs incurred with the issuance of the Series 2007 A Bonds.

7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

PPRF Series 2007B. On July 19, 2007, the Authority issued $38,475,000 of Subordinate Lien Public Project Revolving Fund Series 2007 B Revenue Bonds. The 2007 B Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007B Bonds; (3) purchase a debt service reserve fund surety bond for deposit into the Debt Service Reserve Account established for the Series 2007B Bonds; and (4) pay costs incurred in connection with the issuance of the Series 2007B Bonds.

PPRF Series 2007C. On September 26, 2007, the Authority issued $131,860,000 of Subordinate Lien Public Project Revolving Fund Series 2007 C Revenue Bonds. The 2007 C Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007C Bonds; (3) purchase a debt service reserve fund surety bond for deposit into the Debt Service Reserve Account established for the Series 2007C Bonds; and (4) pay costs incurred in connection with the issuance of the Series 2007C Bonds.

PPRF Series 2007E. On November 8, 2007, the Authority issued $61,945,000 of Senior Lien Public Project Revolving Fund Series 2007 E Revenue Bonds. The 2007 E Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007E Bonds; and (3) pay costs incurred in connection with the issuance of the Series 2007E Bonds.

PPRF Series 2008A. On April 17, 2008, the Authority issued $158,965,000 of Senior Lien Public Project Revolving Fund Series 2008 A Revenue Bonds. The 2008A Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2008A Bonds; and (3) pay costs incurred in connection with the issuance of the Series 2008A Bonds.

7. BONDS PAYABLE - continued

Bonds outstanding as of June 30, 2008, to be paid out of the Authority's debt service funds consist of the following:

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds, Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds.

7. BONDS PAYABLE - continued

Metro Court Financing Fund - continued.
On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

7. BONDS PAYABLE - continued

State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issued revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds, Series 2002A, were issued on December 15, 2001, for purpose of financing the costs of acquiring, constructing, equipping and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

7. BONDS PAYABLE - continued

Bonds payable and related premium/discount balances consist of the following at June 30, 2008:

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1999A, B, C and D	$	9,760,000	3.15 - 6.80	6/1/2018
PPRF 2000A		200,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		8,800,000	4.35 - 5.80	6/1/2009
PPRF 2002A		19,975,000	2.00 - 5.00	6/1/2026
PPRF 2003A		21,959,000	2.00 - 4.75	6/1/2025
PPRF 2003B		19,340,000	2.00 - 5.00	6/1/2021
PPRF 2004A		32,265,000	1.125 - 5.875	6/1/2031
PPRF 2004B		37,875,000	3.00 - 5.50	6/1/2033
PPRF 2004C		146,170,000	2.50 - 5.25	6/1/2024
PPRF 2005C and D		51,015,000	3.05 - 5.00	6/15/2025
PPRF 2005A		15,145,000	3.00 – 5.00	6/1/2025
PPRF 2005B		12,665,000	3.00 – 4.25	6/1/2020
PPRF 2005E		23,630,000	3.875 - 5.00	6/15/2025
PPRF 2005F		21,035,000	3.75 - 5.00	6/15/2025
PPRF 2006A		49,090,000	4.00 - 5.00	6/15/2035
PPRF 2006B		36,410,000	4.00 - 5.00	6/1/2036
PPRF 2006C		37,485,000	4.00 - 5.00	6/15/2027
PPRF 2006D		51,785,000	4.25 - 5.00	6/1/2036
PPRF 2007A		32,295,000	4.00 - 5.00	6/15/2027
PPRF 2007B		37,490,000	4.00 - 5.00	6/15/2034
PPRF 2007C		129,360,000	4.25 - 5.25	6/15/2027
PPRF 2007E		60,960,000	4.00 - 5.00	6/1/2032
PPRF 2008A		157,615,000	3.50 - 5.00	6/1/2038
CIG TAX 2006 – Behavioral		2,250,000	5.51	5/1/2026
		1,014,574,000		
Bond premium and discount, net on enterprise funds bonds payable		39,507,482		
Total	$	1,054,081,482		

7. BONDS PAYABLE – continued

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service Funds:				
UNM Health Sciences	$	22,460,000	2.00 - 5.00	4/1/2019
UNM Health Sciences 2004B		8,460,000	2.10 - 5.50	4/1/2019
Workers' Compensation Financing		2,540,000	5.00 - 5.60	3/1/2017
Metro Court Financing Fund		45,595,000	1.65 - 5.50	6/15/2011
State Capitol Improvement Financing		5,385,000	7.00	6/1/2021
State Building Purchase Fund		26,030,000	4.00 - 5.00	11/1/2006
COP-Equipment Loan Fund Series		191,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series		57,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series		163,000	4.50 - 5.70	4/1/2012
		110,881,000		
Bond premium and discount, net on Debt Service Funds bonds payable		1,899,591		
Total	$	112,780,591		

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2009	$	63,794,000	53,783,568	117,577,568
2010		56,818,000	51,064,441	107,882,441
2011		100,504,000	48,695,791	149,199,791
2012		60,777,000	44,069,750	104,846,750
2013		70,940,000	46,272,661	117,212,661
2014 - 2018		297,218,000	158,097,077	455,315,077
2019 - 2023		243,393,000	92,241,085	335,634,085
2024 - 2028		136,066,000	40,104,275	176,170,275
2029 - 2033		62,295,000	17,668,144	79,963,144
2034 - 2038		33,650,000	3,571,650	37,221,650
Total	$	1,125,455,000	555,568,442	1,681,023,442

7. BONDS PAYABLE - continued

The bonds payable activity for the year is as follows:

		Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008
Enterprise Funds	$	661,114,000	391,245,000	(37,785,000)	1,014,574,000
Debt Service Funds		116,587,000	-	(5,706,000)	110,881,000
Total	$	777,701,000	391,245,000	(43,491,000)	1,125,455,000

The amount of bonds payable due within one year is $63,794,000.

8. NOTE PAYABLE

In November 2002, the Authority issued the 2002A Bond. Part of the 2002A Bond proceeds were given to UNM for their Law Library, and the remaining portion of $2,000,000 was loaned to UNM. To offset this loan receivable, the Authority was issued a note payable in conjunction with the 2002A Debt Service requirement. The terms of this note are outlined below:

$2,000,000 variable interest rate (3.980% at June 30, 2008), note due in annual installments of $156,941 (currently), including interest, through May 2015. Note is offset by cigarette tax proceeds received from the State of New Mexico.	$	1,704,789
Less current maturities		156,941
	$	1,547,848

Long-term debt maturities on note payable to PPRF Fund as of June 30, 2008, are as follows:

Years ending June 30:		
2009	$	156,941
2010		163,848
2011		171,223
2012		179,102
2013		187,505
2014 and thereafter		846,170
	$	1,704,789

9. LINE OF CREDIT

The Authority has a tax-exempt $100,000,000 line of credit with a bank. Advances may be taken against the facility for the funding of loans made by the Authority. Advances, plus accrued interest, must be repaid within six months from the proceeds of Authority bond issuances. The interest rate on advances changes monthly, and is equal to the one-month U.S. dollar LIBOR index plus 17 basis points. The Authority pays a commitment fee on the unused balance of the line at an annual rate of 6 basis points as long as the Authority's long-term debt rating by Standard & Poor's is AA- or better. The Authority's rating is currently AA+. In the event the Authority's rating drops below AA-, the unused fee would increase to 9 basis points.

9. LINE OF CREDIT – continued

At June 30, 2008, there were no amounts due under the line of credit. During the year then ended, the Authority drew a total of $144,509,901 and repaid $175,848,875 in principal and $944,596 in interest. There have been no advances between June 30, 2008 and the date of the independent auditor's report.

10. OPERATING LEASE COMMITMENT

The Authority is committed under various lease agreements for office space, a vehicle and copiers. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2008 amounted to approximately $316,000.

Future minimum lease payments for these leases are as follows:

Years ending June 30:		
2009	$	330,506
2010		342,810
2011		22,908
2012		15,545
2013		847
2014 and thereafter		-
	$	712,616

11. RETIREMENT PLAN

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $361,328, $301,983 and $263,313 for the years ended June 30, 2008, 2007 and 2006, respectively. Substantially all full time employees participate in this plan.

11. RETIREMENT PLAN - continued

Presented below is the June 30, 2008, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

Statement of Fiduciary Net Assets

Assets:		
Cash	$	23,941
Self-directed accounts (cash and investments)		1,651,831
Guaranteed Account		2,621
Participant loans receivable		38,162
Total assets	$	1,716,555
Net assets:		
Pension plan participants' benefits	$	1,716,555

Statement of Changes in Net Assets

Additions:		
Investment earnings	$	(91,969)
Employer contributions		361,328
Rollover contributions		34,297
Employee contributions		120,951
Total additions		424,607
Deductions:		
Distributions to participants		(405,013)
Investment expenses		(13,925)
Total deductions		(418,938)
Change in net assets		5,669
Net assets - beginning		1,710,886
Net assets - ending	$	1,716,555

11. RETIREMENT PLAN - continued

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code for its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2008 were $14,106.

12. COMPENSATED ABSENCES

During the year ended June 30, 2008, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008
$	192,088	214,582	206,434	200,236

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

13. AGENCY TRANSACTIONS

- **Bond Issues**

In 2003, the State Legislature authorized the issuance of $1.6 billion in bonds to fund statewide transportation expansion and improvement projects known as Governor Richardson's Investment Partnership (GRIP). The Authority was authorized to issue $1.6 billion in bonds (the Bonds) in several installments on behalf of the New Mexico Department of Transportation (NMDOT). The Bonds were issued by the Authority as agent for the NMDOT. The Bonds are liabilities of NMDOT, not the Authority, and are not included in the Authority's financial statements.

13. AGENCY TRANSACTIONS - continued

- **Bond Issues – continued**

In May 2004, the Authority issued the following bonds pursuant to the GRIP legislation:

		Par Value	Gross Proceeds	Premium Included in Proceeds	Cost of Issuance
State Transportation Revenue Bonds (Senior Lien) Series 2004A	$	700,000,000	743,556,815	43,556,815	7,987,367
State Transportation Refunding:					
Revenue Bonds (Subordinate Lien) Series 2004B		237,950,000	254,297,187	16,347,187	2,980,638
Series 2004C (Adjustable Rate)		200,000,000	200,000,000	-	2,505,264
Total	$	1,137,950,000	1,197,854,002	59,904,002	13,473,269

The proceeds of the Series 2004A issuance were used to fund the construction of GRIP transportation projects. The proceeds of the Series 2004B and 2004C issuances were used to advance refund certain older debt issues of the NMDOT. The proceeds were used to purchase U.S. government securities which were deposited in an irrevocable trust to provide for all future debt service payments on the refunded issues. The bonds issued in 2004 the 2006 bonds discussed below, and any subsequent bonds that may be issued in the future are special, limited obligations of the NMDOT, payable solely from certain federal funds that are paid into the State Road Fund, certain taxes and fees that are required to be paid into the State Road Fund, and certain taxes and fees required by law to be paid into the Highway Infrastructure Fund.

In December, 2006, the Authority issued the following additional bonds pursuant to the GRIP legislation:

		Par Value	Gross Proceeds	Premium Included in Proceeds	Cost of Issuance
State Transportation Revenue Bonds (Senior Lien) Series 2006A	$	150,000,000	160,886,296	10,886,296	1,192,789
State Transportation Revenue and Refunding Bonds (Subordinate Lien) Series 2006B		40,085,000	41,797,863	1,712,863	352,732

13. AGENCY TRANSACTIONS - continued

- **Bond Issues – continued**

	Par Value	Gross Proceeds	Premium Included in Proceeds	Cost of Issuance
Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien) Series 2006C Subseries C-1through C-3	$ 220,000,000	200,000,000	-	1,698,064
Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien) Series 2006D (Taxable) Subseries D-1 through D-2	50,400,000	50,400,000	-	400,000
Total	$ 460,485,000	473,084,159	12,599,159	3,643,585

With the exception of $10,071,197 deposited to an escrow account for refunded bonds, all of the net proceeds of the 2006 bonds were used to fund GRIP transportation projects.

- **GRIP Administrative fee**

For services provided by the Authority in the issuance and administration of the Bonds, NMDOT pays an annual fee to the Authority of twenty-five basis points of the outstanding principal balance of the Bonds. One-half of the fee is set aside by the Authority in the Local Transportation Infrastructure Fund ("LTIF") to fund local highway and transportation projects.

For the year ended June 30, 2008, the Authority received 2,882,887 in administrative fees related to the Bonds. One-half of this amount was deposited in the LTIF, the remaining one-half was recorded as revenue to the Authority.

At June 30, 2008, the Trustee for the Bonds held $380,172,840 in cash in various program and debt service accounts related to the Bonds.

- **Refunding of Variable Rate Bonds**

The 2004C, 2006C, and 2006D Series bonds were issued as Auction Rate Securities ("ARS"). ARS are one of the two principal types of securities for which interest rates are reset in a periodic auction process. For each of these Series, the rates were reset in weekly auctions. All of the bonds were insured by certain municipal bond insurance companies. In late 2007 and early 2008, the market for ARS was negatively impacted by a number of factors, the principal event being downgrades of the ratings of certain insurers of ARS. These downgrades and other events caused the weekly auctions of the bonds to "fail', meaning that insufficient bids were received to permit resale of all of the bonds. In the event of a

13. AGENCY TRANSACTIONS - continued

- **Refunding of Variable Rate Bonds**

failed auction, no bonds are resold, even though some bids were received. In a failed ARS suction, the existing holders of the bonds must continue to hold their bonds until the next successful auction. The procedures applicable to a failed auction included a provision that the interest rate on the bonds resets to a default rate. In the case of the 2004C bonds, the default rate was one-month LIBOR plus 175 basis points. The default rate for the 2006C and D bonds was 12%.

In April and May, 2008, the Authority refunded all of the ARS Series 2004C, 2006C, and 2006D, reissuing the bonds as Variable Rate Demand Notes (VRDN). The interest rates for these bonds reset in weekly auctions, as was the case for the ARS. The principal difference between the ARS and the VRDN is that the ARS were credit-enhanced with insurance, while the VRDN are supported by bank letters of credit. The following bonds were issued:

		Par Value
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008A	$	115,200,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008B		220,000,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008C		84,800,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008D (Taxable)		50,400,000
Total	$	460,400,000

All of the above refunding bonds were issued at par. The DOT provided additional funds totaling $2,641,872 to pay for the cost of issuance of the bonds.

- **Derivative Instruments**

At the time of the 2004 GRIP bond issuance, the Authority entered into interest rate exchange agreements ("swaps") with respect both to the adjustable rate bonds then issued and the adjustable rate bonds anticipated to be issued in 2006. All of the 2004 adjustable rate bonds were hedged at issuance with immediately-starting swaps and approximately one-half of the anticipated total 2006 issuance was hedged with forward-starting swaps that became effective in 2006.

13. AGENCY TRANSACTIONS - continued

- **Derivative Instruments - continued**

In all of the swaps, the Authority receives a variable-interest rate payment based on an index, and makes a fixed-rate interest payment. This arrangement has the effect of converting the variable rate bonds to "synthetic fixed-rate" issues.

As in the case of the GRIP bonds, the Authority has entered into the swaps as an agent for the DOT, and no amounts with respect to the swap transactions appear in the Authority's financial statements. These swap agreements remained in effect following the 2008 refunding and reissuance of the 2004 and 2006 adjustable rate bonds as Variable Rate Demand Notes (the 2008 A through D Series).

- **Objectives of the Swaps**

The Authority's objective in entering into the swap agreements was to obtain a lower interest cost for the 2004 bonds than could have been obtained at the time had they been issued as fixed-rate bonds. With respect to the planned 2006, issuance, the Authority believed in 2004 that it would be desirable to "lock in" a synthetic fixed rate of 5% or less for a portion of the bonds anticipated to be issued in 2006.

- **Significant Terms**

2004 Swaps:

Counterparty	Royal Bank of Canada	Goldman Sachs	Lehman Brothers*
Notional Amount	$100,000,000	$50,000,000	$50,000,000
Receipt Rate	68 % of 1 month LIBOR**	68 % of 1 month LIBOR**	68 % of 1 month LIBOR**
Payment Rate (Synthetic Fixed Rate)	3.934%	3.934%	3.934%
Embedded Option(s)	None	None	None
Effective Date	May 20, 2004	May 20, 2004	May 20, 2004
Termination Date:	June 15, 2024	June 15, 2024	June 15, 2024

* On October 6, 2008, as discussed below, Lehman Brothers was replaced as the counterparty by Deutsche Bank. The significant terms of the Deutsche Bank swap are the same as the Lehman Brothers swap.

**For the period May 20, 2004 to June 15, 2006 the rate was the BMA Municipal Swap Index

13. AGENCY TRANSACTIONS - continued

- **Significant Terms - continued**

2006 Forward Starting Swaps:

Counterparty	JPMorgan Chase Bank	UBS AG
Notional Amount	$110,000,000	$110,000,000
Receipt Rate	SIFMA Municipal Swap Index	SIFMA Municipal Swap Index
Payment Rate	5.072%	5.072%
Embedded Option(s)	"Knockout" option – Counterparty may cancel if the index remains above 7% for more than 180 days	"Knockout" option – Counterparty may cancel if the index remains above 7% for more than 180 days
Option premium to the Authority	0.34%	0.34%
Net payment rate ("Synthetic Fixed Rate"), equals the payment rate less option premium	4.732%	4.732%
Effective Date	December 15, 2006	December 15, 2006
Termination Date:	December 15, 2026	December 15, 2026

No cash was paid or received at the initiation of any of the above swaps.

13. AGENCY TRANSACTIONS - continued

- **Fair Value**

The estimated fair value of the swaps at June 30, 2008 was as follows:

Counterparty		Notional Value	Fair Value*
Goldman Sachs	$	50,000,000	(3,617,674)
Lehman Brothers		50,000,000	(3,592,705)
Royal Bank of Canada		100,000,000	(7,235,348)
JPMorgan Chase Bank		110,000,000	(16,441,991)
UBS AG		110,000,000	(16,441,991)
Total	$	420,000,000	(47,329,709)

*The Fair Value is the estimated amount that would have been received by or paid to the Authority if the agreements had been terminated at June 30, 2008 under the terms of the agreement. This value is the net present value of the receipts and payments anticipated to be made pursuant to the agreements. The net present values are calculated based on discount rates indicated by actual swap transactions that occurred on or around June 30, 2008. Negative amounts indicate payments that would have been made by the Authority to the counterparties.

- **Associated Debt**

Variable Rate Debt*			2008 Debt Service Principal	2008 Debt Service Interest	Net Swap Payments Made (Received)	Total	Actual Synthetic Fixed Rate
Series 2008A and C	$	200,000,000	-	7,520,995	1,864,390	9,385,385	4,693%
Series 2008B		220,000,000	-	8,360,775	2,890,693	11,251,468	5.114%

*The interest and swap payments for these bonds include the payments for the 2004 and 2006 Series bonds that that the 2008 series bonds replaced during the fiscal year.

- **Replacement of Counterparty**

The terms of the Authority's agreements with the swap counterparties provide that a bankruptcy filing is an event that terminates the agreement. In September 2008, Lehman Brothers, one of the counterparties for the 2004 swaps, filed for bankruptcy. The Authority evaluated a number of options and replaced Lehman Brothers with Deutsche Bank as the counterparty for this swap. All significant terms of the new agreement with Deutsche Bank remain the same as the original Lehman Brothers agreement. At the closing of the transaction on October 6, 2008, Deutsche Bank paid the then-current termination value as provided by the original agreement. The amount paid was calculated pursuant to the agreement to be $4,840,000. This was approximately $300,000 greater than the amount due Lehman

13. AGENCY TRANSACTIONS - continued

- **Replacement of Counterparty - continued**

Brothers, which was calculated, per the agreement, as of September 23, 2008, a termination date triggered by the bankruptcy filing. The excess funds were deposited in a debt service account and will be used to make debt service payments on the bonds.

Credit Risk

Credit risk is the possibility that a counterparty will not fulfill its obligations.

The credit ratings of the counterparties, at October 10, 2008, were:

	Moody's	S&P	Fitch
Royal Bank of Canada	Aaa	AA-	AA
Goldman Sachs	Aaa	AAA	NR
Deutsche Bank	Aa1	AA-	AA-
JP Morgan Chase	Aaa	AA	AA-
UBS AG	Aa2	AA-	AA-

Presently, the Authority has no exposure to loss with respect to the counterparties, as the termination values of the swaps are negative. That is, no amounts would be owed to the Authority if any swaps were terminated at present. Each swap agreement contains provisions requiring the posting of collateral in the event that termination values exceed certain amounts. No termination value currently exceeds these limits, and, accordingly, no collateral is posted. The swap agreements permit the netting of amounts owed between the Authority and the counterparty, mitigating, to some extent, the level of credit risk that would exist if the Authority were owed a termination value by a counterparty. The authority believes it has an adequate degree of diversification with regard to counterparties.

Interest Rate Risk

The knock-out option in the 2006 swaps leaves the Authority open to interest rate risk. If the SIFMA municipal swap index averages above 7% for 180 consecutive days, then, as provided by the terms of the knockout option, swap agreements could be cancelled by the counterparties and the Authority would have outstanding unhedged variable rate debt in a 7% interest rate environment.

Basis Risk

Basis risk is the possibility that the variable rate paid on the bonds may not be adequately offset by the variable index payment received under the swap agreement. The Authority has little or no such risk with respect to the 2004 bonds as the 2004 swaps pay a variable rate equal to the SIFMA Municipal Swap index which has very closely approximated, historically, the rates paid on variable rate municipal debt. The Authority has basis risk, however, with respect to the 2006 swaps. The variable rate the Authority

13. AGENCY TRANSACTIONS - continued

- **Risks - continued**

Basis Risk - continued
receives with respect to the 2006 swaps is 68% of one-month LIBOR. While this rate has closely tracked the SIFMA Municipal; Swap Index for a long period of time, there has recently been some divergence between the two indices. There is no guarantee that the two indices will remain as closely correlated in the future as they were in the past. There is a possibility, therefore, of a mismatch between actual variable rate bond debt service payments and the variable rate receipts under the 2006 swap agreements, resulting in a failure to achieve the synthetic fixed rate expected when the swaps initiated.

One event that would cause a divergence between the indices is a significant change in U.S. income tax rates. This might result in 68% of LIBOR no longer approximating the tax-exempt rate set by the market for the Authority's variable rate debt.

- **Termination Risk**

The unplanned termination of one or more of the swaps exposes the Authority to the possibility that the synthetic fixed rate expected to be obtained on the variable rate debt will not, in fact, be achieved. The swap agreements contain the standard ISDA provisions for termination, including events such as bankruptcy, ratings downgrades, and failure to post collateral when required. In addition, the Authority, but not the counterparties, can terminate the swaps at any time with 30-day notice. As discussed above, an unplanned termination occurred due to the bankruptcy filing by Lehman Brothers. In this situation, the Authority was successful in replacing the counterparty with another on the same terms, resulting in no loss to the Authority. There can be no assurance that the same result could be obtained if other unplanned terminations occur in the future.

14. SUBSEQUENT EVENTS

After June 30, 2008, the Authority issued the following PPRF Direct Loans, Water Project Fund/Water Trust Board Grants, and Subordinate Lien PPRF Revenue Bonds:

	Closing Date		Amount
PPRF Cash Loans:			
DL – Town of Bernalillo	7/11/2008	$	1,016,321
DL – Catron County – Quemado Lake VFD	7/18/2008		101,500
DL – Sierra SWCD	7/18/2008		133,658
DL – Village of Willard	7/18/2008		225,993
DL – City of Santa Fe	8/1/2008		3,610,000
DL – City of Sunland Park	8/15/2008		186,690
DL – Cuba SWCD	8/22/2008		24,360
DL – Village of Reserve	8/22/2008		101,500
DL – Torrance County	9/5/2008		30,450
DL – City of Las Cruces	9/12/2008		1,708,755
DL – Town of Lake Arthur	9/19/2008		56,995
DL – Valencia County – Highland Meadows VFD	9/19/2008		137,025
DL – Upper Chama SWCD	9/19/2007		218,245
DL – Otero County – 16 Springs VFD	9/26/2008		162,400
Water Project Fund/Water Trust Board:			
WPF/WTB – Claunch Pinto Soil and Water Conservation District	7/18/2008		600,000
WPF/WTB – Santo Domingo Pueblo	8/1/2008		293,000
WPF/WTB – City of Lordsburg	8/22/2008		850,000
WPF/WTB – NM Interstate Stream Commission	8/29/2008		750,000
WPF/WTB – NM Interstate Stream Commission	8/29/2008		2,000,000
WPF/WTB – City of Clovis – ENMRWA	9/5/2008		1,250,000
WPF/WTB – City of Clovis – ENMRWA	9/5/2008		2,271,400
Planning Grant Fund:			
P/G – Ancones MDWCA	7/11/2008		25,000
P/G – Sangre de Cristo Regional MDWCA	7/11/2008		18,000
P/G – Canjilon MDWCA & MSWA	8/8/2008		22,500
P/G – Sierra County	9/5/2008		50,000
Water Waste Water Grant Funding:			
WW – City of Moriarty	9/19/2008		396,000

14. SUBSEQUENT EVENTS - continued

PPRF Series 2008B. On October 16, 2008, the Authority issued $24,430,000 of Senior Lien Public Project Revolving Fund Series 2008 B Revenue Bonds. The 2008 B Series Bonds were issued to: 1) reimburse the Public Project Revolving fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, and 2) pay costs incurred with the issuance of the Series 2008 B Bonds.

15. DEFICIT FUND / NET ASSETS

There are deficit fund balances of $56,065 in the Child Care Revolving Loan Fund, $426,720 in the New Mexico Tax Credits Fund and $13,377 in the Energy Efficiency Fund. The operating fund will cover the deficits in these funds.

SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

		Emergency Drought Water Program	Water and Wastewater Planning Grant Fund	Metro Court Financing Fund	Workers' Compensation Financing Fund
ASSETS:					
Unrestricted:					
Cash and cash equivalents	$	286,351	830,576	-	484,863
Receivables:					
Tax revenue		-	-	-	-
Interest		-	-	-	-
Other receivables		-	-	-	-
Loans receivable		-	-	-	-
		286,351	830,576	-	484,863
Restricted:					
Cash and cash equivalents held for others by trustee:					
Debt service		-	-	-	642,015
Bond reserve		-	-	-	-
Program - bond proceeds		-	-	-	-
TOTAL ASSETS	$	286,351	830,576	-	1,126,878
LIABILITIES:					
Accounts payable	$	-	8,552	-	-
Debt service payable		-	-	-	-
Notes payable		-	-	-	-
Payable to other governments		-	-	-	-
Due to other funds		-	9,118	-	-
TOTAL LIABILITIES		-	17,670	-	-
FUND BALANCES:					
Reserve for debt service		-	-	-	1,126,878
Unreserved, reported in non-major:					
Special revenue funds		286,351	812,906	-	-
TOTAL FUND BALANCES		286,351	812,906	-	1,126,878
TOTAL LIABILITIES AND FUND BALANCES	$	286,351	830,576	-	1,126,878

State Capital Improvement Financing Fund	Equipment Loan Fund	Bio Mass Fund - Dairy	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	Water and Wastewater Project Grant Fund	Total Non-major Governmental Funds
400,144	-	2,003,260	-	6,992,629	3,711,137	14,708,960
-	(3,384)	-	117,076	530,000	-	643,692
-	6,239	-	-	-	-	6,239
-	-	-	-	-	-	-
-	411,000	-	-	-	-	411,000
400,144	413,855	2,003,260	117,076	7,522,629	3,711,137	15,769,891
-	3,383	-	-	-	-	645,398
-	-	-	-	-	-	-
-	-	-	-	-	8,067,050	8,067,050
400,144	417,238	2,003,260	117,076	7,522,629	11,778,187	24,482,339
80,264	-	-	-	-	27,133	115,949
-	-	-	-	-	-	-
-	-	-	1,704,789	-	-	1,704,789
-	-	-	-	-	-	-
-	-	-	-	-	6,707	15,825
80,264	-	-	1,704,789	-	33,840	1,836,563
319,880	417,238	2,003,260	-	7,522,629	-	11,389,885
-	-	-	(1,587,713)	-	11,744,347	11,255,891
319,880	417,238	2,003,260	(1,587,713)	7,522,629	11,744,347	22,645,776
400,144	417,238	2,003,260	117,076	7,522,629	11,778,187	24,482,339

YEAR ENDED JUNE 30, 2007

	Emergency Drought Water Program	Water and Wastewater Planning Grant Fund	Metro Court Financing Fund	Workers' Compensation Financing Fund
REVENUES:				
Grant revenue	$ -	-	-	-
Interest on loans	-	-	-	-
Interest on investments	12,464	44,800	-	50,776
Other revenue	-	-	-	-
TOTAL REVENUES	12,464	44,800	-	50,776
EXPENDITURES:				
Current:				
Administrative fees	-	-	-	-
Professional services	-	77,983	-	641
Salaries and fringe benefits	-	39,661	-	-
In-state travel	-	1,902	-	-
Out-of-state travel	-	68	-	-
Maintenance and repairs	-	475	-	-
Operating costs	-	9,916	-	-
Grant expenses	-	205,625	-	-
Capital outlay	-	732	-	-
Debt service - principal	-	-	170,000	210,000
Debt service - interest	-	-	2,187,229	145,495
TOTAL EXPENDITURES	-	336,362	2,357,229	356,136
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,464	(291,562)	(2,357,229)	(305,360)
OTHER FINANCING SOURCES (USES):				
State General Fund appropriations	-	-	-	705,708
Transfers (to) from other funds	-	-	2,357,229	-
Transfers to other state agencies	-	-	-	(557,079)
NET OTHER FINANCING SOURCES (USES)	-	-	2,357,229	148,629
NET CHANGE IN FUND BALANCES	12,464	(291,562)	-	(156,731)
FUND BALANCES, June 30, 2007	273,887	1,104,468	-	1,283,609
FUND BALANCES, June 30, 2008	$ 286,351	812,906	-	1,126,878

State Capital Improvement Financing Fund	Equipment Loan Fund	Bio Mass Fund - Dairy	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	Water and Wastewater Project Grant Fund	Total Non-major Governmental Funds
-	-	-	-	-	-	-
-	28,605	-	-	-	-	28,605
17,278	-	3,260	-	326,782	545,704	1,001,064
-	-	-	-	-	-	-
17,278	28,605	3,260	-	326,782	545,704	1,029,669
14,538	-	-	-	20,603	-	35,141
-	-	-	-	1,603	86,299	166,526
-	-	-	-	-	69,331	108,992
-	-	-	-	-	360	2,262
-	-	-	-	-	296	364
-	-	-	-	-	1,064	1,539
-	-	-	-	-	17,368	27,284
-	-	-	-	-	2,164,356	2,369,981
-	-	-	-	-	512	1,244
570,000	96,000	-	-	1,440,000	-	2,486,000
407,050	30,000	-	-	1,374,375	-	4,144,149
991,588	126,000	-	-	2,836,581	2,339,586	9,343,482
(974,310)	(97,395)	3,260	-	(2,509,799)	(1,793,882)	(8,313,813)
991,256	-	2,000,000	1,348,761	6,360,000	-	11,405,725
-	-	-	(7,400,230)	(241,405)	-	(5,284,406)
-	-	-	-	(2,819,856)	-	(3,376,935)
991,256	-	2,000,000	(6,051,469)	3,298,739	-	2,744,384
16,946	(97,395)	2,003,260	(6,051,469)	788,940	(1,793,882)	(5,569,429)
302,934	514,633	-	4,463,756	6,733,689	13,538,229	28,215,205
319,880	417,238	2,003,260	(1,587,713)	7,522,629	11,744,347	22,645,776

SUPPLEMENTAL SCHEDULES

Schedule 1 - Supplemental Schedule of Pledged Collateral

YEAR ENDED JUNE 30, 2008

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	Total
Bank accounts:			
Operating account - checking	$ -	-	-
Wire transfer account	325,772	-	325,772
Repurchase agreements	-	3,748,175	3,748,175
Total amount of deposits	325,772	3,748,175	4,073,947
FDIC coverage	(100,000)	(100,000)	(200,000)
Total uninsured public funds	225,772	3,648,175	3,873,947
Collateral requirement @ 50%	112,886	-	112,886
Collateral requirement @ 102%		3,721,139	3,721,139
Pledges and securities:			
US T. Note, matures June 1, 2036			
Held at Wells Fargo, San Francisco, CA			
CUSIP 3141DCF31			
Par $326,900	332,288	-	332,288
US T. Note, matures January 15, 2025			
Held at Bank of America, Charlotte, NC			
CUSIP 912828DH0; 912810FR4			
Par $925,000	-	603,302	603,302
Par $3,730,000 (matures 01/15/2025)	-	3,690,794	3,690,794
Overcollateralized	$ 219,402	572,957	792,359

Pledged collateral amounts are in compliance with the collateral requirement of 102%.

YEAR ENDED JUNE 30, 2008

Description	Type		State Treasurer	State Treasurer Capital Fund	Bank of Albuquerque
Local Government Investment Pool	Government Investment Pool *	$	147,117,448	-	-
Primary Care	Government		-	-	-
Capital Fund	Investment Pool *		-	545,566	-
State Treasurer Money Market	Money Market		-	-	21,600,027
Trust Accounts	Money Market		-	-	246,849,598
Cigarette Tax Bonds Debt Service Reserve	Money Market		-	-	-
Operating Accounts	Checking		-	-	-
Agency Fund Money Market	Money Market		-	-	380,172,840
		$	147,117,448	545,566	648,622,465

Unrestricted
Restricted

Total cash

* The LGIP Pool investments consist of U.S. Government Securities, Commerical Paper and Money Market.

Schedule 2 - Schedule of Individual Deposit and Investment Accounts

Bank of America	Wells Fargo	The Reserve Bank	Total Book Balance	Total Bank Balance
-	-	-	147,117,448	147,117,448
-	-	-	-	
-	-	-	545,566	545,566
-	-	-	21,600,027	21,600,027
-	-	-	246,849,598	246,849,598
279,359	-	-	279,359	279,359
-	1,100,831	82,453,795	83,554,626	83,595,485
-	-	-	380,172,840	380,172,840
279,359	1,100,831	82,453,795	880,119,464	880,160,323

Governmental Activities	Business-Type Activities	Agency Funds	Total Cash
$ 118,068,253	86,419,188	-	204,487,441
20,909,892	274,549,291	380,172,840	675,632,023
$ 138,978,145	360,968,479	380,172,840	880,119,464

Schedule 3 - Agency Funds - Schedule of Changes in Assets and Liabilities

YEAR ENDED JUNE 30, 2008

		Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES A					
Fund 315					
ASSETS:					
Cash and investments	$	231,353,435	340,495,884	427,358,504	144,490,815
TOTAL ASSETS	$	231,353,435	340,495,884	427,358,504	144,490,815
LIABILITIES:					
Deposits held in trust for others	$	231,353,435	340,495,884	427,358,504	144,490,815
TOTAL LIABILITIES	$	231,353,435	340,495,884	427,358,504	144,490,815
DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES 2006					
Fund 322					
ASSETS:					
Cash and investments	$	404,551,152	440,141,788	612,345,821	232,347,119
TOTAL ASSETS	$	404,551,152	440,141,788	612,345,821	232,347,119
LIABILITIES:					
Deposits held in trust for others	$	404,551,152	440,141,788	612,345,821	232,347,119
TOTAL LIABILITIES	$	404,551,152	440,141,788	612,345,821	232,347,119
DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES 2008					
Fund 326					
ASSETS:					
Cash and investments	$	-	10,668,187	7,333,280	3,334,907
TOTAL ASSETS	$	-	10,668,187	7,333,280	3,334,907
LIABILITIES:					
Deposits held in trust for others	$	-	10,668,187	7,333,280	3,334,907
TOTAL LIABILITIES	$	-	10,668,187	7,333,280	3,334,907

SINGLE AUDIT

YEAR ENDED JUNE 30, 2008

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Environmental Protection Agency:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 13,595,226
Total EPA		$ 13,595,226
Funds passed through to sub-receipients		$ 4,984,752

Loans funded	Original Balance	Balance at June 30, 2008
Revolving loans:		
Loans funded in previous years	$ 71,495,630	30,907,764
Total loans funded	$ 71,495,630	30,907,764

The revolving loans are funded through a mix of 80% federal and 20% state monies. The technical set-asides are funded with 100% federal monies.

Notes to the Supplemental Schedule of Expenditures of Federal Awards

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Authority.

BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Authority's general purpose financial statements.

Reconciliation to Financial Statements (page 26) – New Mexico Drinking Water Revolving Loan Fund:

Transfers to other state agencies	$	4,984,752
Total non-interest expense		577,430
Total EPA expenditures per Statement of Revenues, Expenditures and Changes in Fund Net Assets		5,562,182
Total loans issued from Federal Draws included in loans receivable on Statement of Net Assets		8,033,044
Total EPA expenditures	$	13,595,226

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

New Mexico Finance Authority and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2008. We have also audited the financial statements of each of the Authority's nonmajor governmental funds and fiduciary funds presented as supplementary information in the combining fund financial statements as of and for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A **control deficiency** 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 misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency (08-1) described in the accompanying schedule of findings and questioned costs to be a control deficiency.

MEYNERS + COMPANY, LLC
Certified Public Accountants/Consultants to Business
500 Marquette NW, Suite 800 Albuquerque, NM 87102
P 505/842-8290 F 505/842-1568 E cpa@meyners.com
www.meyners.com
An Independent Member of the BDO Seidman Alliance

New Mexico Finance Authority and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the Authority, the State of New Mexico Office of the State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

September 29, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

New Mexico Finance Authority and
Mr. Hector H. Balderas
New Mexico State Auditor

Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority), with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Not-For-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

MEYNERS + COMPANY, LLC
Certified Public Accountants/Consultants to Business
500 Marquette NW, Suite 800 Albuquerque, NM 87102
P 505/842-8290 F 505/842-1568 E cpa@meyners.com
www.meyners.com
An Independent Member of the BDO Seidman Alliance

New Mexico Finance Authority and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A **control deficiency** in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Authority, the State of New Mexico Office of the State Auditor, and the cognizant audit agency and other federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams + Company, LLC

September 29, 2008

YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Finance Authority (Authority).

2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Authority.

3. No significant deficiencies were disclosed during the audit of the financial statements and are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards.*

4. There were no significant deficiencies in the internal control over major programs disclosed by the Authority.

5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.

6. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

7. The program tested as a major program is:
   Capitalization Grants for Drinking Water State Revolving Fund
   CFDA Number 66.468

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

08-1 MISSING DOCUMENTATION

Condition: Of 25 payroll and personnel transactions tested, we noted that one employee file did not contain I-9 documentation.

Criteria: The U.S. Immigration and Naturalization Service requires an employer to verify and document U.S. citizenship or resident status.

Cause: Oversight by the Authority.

Effect: Failure to comply with federal employment requirements may result in the Authority being assessed penalties or fines.

Recommendation: We recommend the Authority review its personnel files and complete I-9 forms for those employees who do not have the documentation on file.

Management's Response: The Authority had the I-9 form completed by the employee and placed in the employee's personnel file to accompany the existing supporting documents already contained in the file. All files were reviewed by management to ensure that all I-9 forms along with supporting documents were contained in the personnel file. No other missing forms or supporting documents were noted during this review.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

Summary Schedule of Prior Year Audit Findings

None.

An exit conference was held with the Authority on November 4, 2008. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

Katherine Miller, Chairperson (Audit Committee)
William F. Fulginiti, Vice Chairperson (Audit Committee)
William C. Sisneros, Chief Executive Officer
John T. Duff, Chief Operating Officer
Greg Campbell, Controller
Lonnie Marquez, Member (Audit Committee)
Paul Gutierrez, Member (Audit Committee)

MEYNERS + COMPANY, LLC

Georgie Ortiz, Principal
Janet Pacheco-Morton, Senior Manager
Jason C. Greving, In Charge

PREPARATION OF FINANCIAL STATEMENTS

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

OFFICE OF THE STATE AUDITOR

Hector H. Balderas

February 9, 2009

SAO Ref. No. 385

William C. Sisneros, CEO
New Mexico Finance Authority
207 Shelby Street
Santa Fe, NM 87505-2151

SUBJECT: Audit Report—New Mexico Finance Authority—2007-2008 Fiscal Year—Prepared by Meyners & Company, LLC

The audit report for your agency was received by the Office of the State Auditor (Office) on November 19, 2008. The State Auditor's review of the audit report required by Section 12-6-14 (D) NMSA 1978 and 2.2.2.13 NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's financial and compliance audit. In accordance with Section 2 of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A) NMSA 1978, **the audit report does not become public record until ten days after the date of this letter**. Once the ten day waiting period has passed, the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer.

The independent public accountant's findings and comments are included in the audit report on page 105. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.**

HECTOR H. BALDERAS
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration
Financial Control Division & Budget Division
Office of the State Treasurer
Meyners & Company, LLC

NEW MEXICO FINANCE AUTHORITY
Santa Fe, New Mexico

Financial Statements
June 30, 2009 and 2008

NEW MEXICO FINANCE AUTHORITY

Table of Contents

NEW MEXICO FINANCE AUTHORITY

Official Roster

Year Ended June 30, 2009

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
Ron Curry, Member
Rhonda Faught, Member
Paul Gutierrez, Member
Lonnie Marquez, Member
Fred Mondragon, Member
Katherine Miller, Member
Joanna Prukop, Member
Craig Reeves, Member
Dan Silva, Member

Chief Executive Officer
William C. Sisneros

Chief Operating Officer
Jerome Trojan

Chief Financial Officer
John Duff

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Governing Board
New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying basic financial statements of the New Mexico Finance Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The basic financial statements as of and for the year ended June 30, 2008 were audited by other auditors, whose report dated September 29, 2008, expressed an unqualified opinion on those statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2009, and the respective changes in the financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009 and changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the Authority restated its prior year financial statements and changed its presentation for reporting certain funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, presented on pages 4 through 14, is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Baltimore, Maryland
March 25, 2010

This section of the New Mexico Finance Authority's (the "Authority") annual financial statements presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2009 and financial condition at that date. This section should be read together with the Authority's financial statements and accompanying notes.

The New Mexico Finance Authority

The Authority was created by the New Mexico State Legislature in 1992 to finance infrastructure projects for the state's counties and cities and certain departments of state government. The objective was to provide low-cost financing for borrowers who might not otherwise be able to access the tax-exempt bond market on a cost-effective basis. The 1992 statute created the Public Projects Revolving Fund ("PPRF") as the vehicle to accomplish this financing objective. As authorized by the statute, the Authority issues tax-exempt PPRF bonds to obtain the funds it loans to New Mexico governmental entities. The statute created the Governmental Gross Receipts tax as a source of funding for Authority operations and to serve as a credit enhancement for the Authority's bonds. Although the legislature has created additional program responsibilities for the Authority, the PPRF remains the core of its activities.

Overview of the Financial Statements

These annual financial statements consist of three parts:

1. Management's Discussion and Analysis (this section), including condensed, comparative financial statements.
2. The financial statements (Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows) and related notes.
3. Supplementary information.

Condensed Comparative Financial Statements

New Mexico Finance Authority
Combined Statements of Net Assets
As of June 30

	FY 2009	As Restated FY 2008	Net Increase / (Decrease)	Percentage Increase / (Decrease)	FY 2007
Cash and cash equivalents:					
Unrestricted	$ 111,877,869	$ 88,756,143	$ 23,934,228	27.0%	$ 70,167,367
Restricted	373,898,180	411,190,481	(37,292,301)	(9.1%)	200,975,188
Loans receivable, net of allowance	1,113,608,650	1,041,033,758	72,574,892	7.0%	698,598,236
Intergovernmental receivables	154,793,087	161,605,000	(6,811,913)	(4.2%)	168,165,000
Other accounts receivable	16,645,091	24,348,425	(7,703,334)	(31.6%)	19,171,584
Capital assets	197,828	377,984	(180,156)	(47.7%)	439,292
Other assets	11,679,176	12,125,477	(446,301)	(3.7%)	10,660,513
Total assets	**$ 1,782,699,881**	**$ 1,739,437,268**	**$ 44,075,115**	**2.5%**	**$ 1,168,177,180**
Current liabilities					
Bonds payable, current, net	$ 57,878,000	$ 62,119,000	$ (4,241,000)	(6.8%)	$ 35,584,000
Line of credit payable	-	-	-	0.0%	31,338,974
Undisbursed loan proceeds	182,920,935	197,721,699	(14,800,764)	(7.5%)	74,937,416
Borrowers' reserve deposits	66,071,327	61,634,993	4,436,334	7.2%	43,583,290
Accounts payable	1,556,821	1,579,139	(22,318)	(1.4%)	2,082,609
Other liabilities	5,054,229	5,034,419	19,810	0.4%	4,112,774
Total current liabilities	313,481,312	328,089,250	(14,607,938)	-4.5%	191,639,063
Noncurrent liabilities					
Bonds payable, noncurrent, net	1,075,076,148	1,022,818,292	52,257,856	5.1%	690,296,368
Total liabilities	**1,388,557,460**	**1,350,907,542**	**37,649,918**	**2.8%**	**881,935,431**
Net assets					
Invested in capital assets	197,828	377,984	(180,156)	(47.7%)	439,292
Restricted for debt service	8,962,319	9,921,093	(842,929)	(8.5%)	9,451,685
Restricted for program funds	274,378,249	289,676,812	6,513,913	2.2%	206,712,116
Unrestricted	110,604,025	88,553,837	121,867	0.1%	69,638,656
Total net assets	**394,142,421**	**388,529,726**	**5,612,695**	1.4%	**286,241,749**
Total liabilities and net assets	**$ 1,782,699,881**	**$ 1,739,437,268**	**$ 43,262,613**	**2.5%**	**$ 1,168,177,180**

New Mexico Finance Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30

	FY 2009	As Restated FY 2008	Net Increase / (Decrease)	Percentage Increase / (Decrease)	FY 2007
Appropriation revenue	$ 52,379,731	$ 136,293,957	$ (83,914,226)	(61.6%)	$ 34,930,401
Grant revenue	36,494,181	27,209,672	9,284,509	34.1%	12,579,061
Administrative fees	7,670,438	5,730,102	1,940,336	33.9%	3,918,596
Interest on loans	47,590,234	41,142,152	6,448,082	15.7%	31,335,380
Interest on investments	2,890,591	10,927,088	(8,036,497)	(73.5%)	7,937,870
Operating revenue	**147,025,175**	**221,302,971**	**(74,277,796)**	**(51.5%)**	**90,701,308**
Grant expense	59,785,212	26,380,010	33,405,202	126.6%	19,237,131
Bond issuance costs	1,604,245	501,042	1,103,203	220.2%	575,664
Professional services	3,642,941	3,965,930	(322,989)	(8.1%)	2,515,254
Salaries and benefits	3,860,505	3,202,868	657,637	20.5%	2,869,659
Interest expense	49,418,130	45,684,800	3,733,330	8.2%	29,565,405
Other expense	2,208,819	1,951,991	256,828	13.2%	1,647,332
Expenses	**120,519,852**	**81,686,641**	**38,833,211**	**380.5%**	**56,410,445**
Operating income	26,505,323	139,616,330	(113,111,007)	13.8%	**34,290,863**
Loss on investments	8,205,430	-	8,205,430	0.0%	-
Income before transfers	**18,299,893**	**139,616,330**	**(121,316,437)**	**(86.9%)**	**34,290,863**
Transfers to other agencies	12,687,198	37,328,353	(24,641,155)	(66.0%)	33,725,706
Increase in net assets	**5,612,695**	**102,287,977**	**(96,675,282)**	**(94.5%)**	**565,157**
Net assets, beginning of year (restated)	**388,529,726**	**286,241,749**	**102,287,977**	**35.7%**	**285,676,592**
Net assets, end of year	**$ 394,142,421**	**$ 388,529,726**	**$ 5,612,695**	**1.4%**	**$ 286,241,749**

Analysis of the Authority's overall financial position and results of operations

- The Authority's unrestricted cash grew by $23.1 million primarily due to the receipt of the Governmental Gross Receipts Tax (see discussion on page 4, "the New Mexico Finance Authority"). Restricted cash decreased by $37.3 million in 2009, primarily due to $34.8 million in grant program expenditures of funds appropriated by the legislature in 2008 for local road construction projects (the "GRIP II" program).
- Loans receivable increased by $72.6 million in 2009 primarily as a result of new loans made during the year totaling $146.1 million less loan payments received of $73.5 million.
- Bonds payable increased by $48.0 million in 2009 resulting from the issuance of $115.4 million of new bonds, principal payments on outstanding bonds of $58.0 million, the reclassification of an interfund liability of $8.5 million, and amortization of bond premium.
- The Authority's revenues decreased by $74.3 million in 2009 compared to 2008. The main reason for the decline was an appropriation in 2008 of $86.7 million from the state legislature for the GRIP II program. In 2009, only $19.9 million was appropriated. Other revenues increased in 2009, with the exception of investment earnings which declined by $8 million due to significantly lower interest rates in 2009.
- Grant expense increased by $33.4 million in 2009 as the funds appropriated in 2008 for local road projects, described above, began to be spent.
- Interest expense increased by $3.7 million due to the increased amount of bonds outstanding during the year.
- The Authority's net assets grew by $5.6 million in 2009.
- During fiscal year 2009, the Authority invested, net of depreciation, a total of $32,757 in capital assets. More detailed information about the Authority's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

- The Authority's long-term debt consists of outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2009, the total amount outstanding was $1.13 billion (excluding the $1.85 billion in GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 6 to the financial statements.
- During the fiscal year, the Authority issued $115.5 million in PPRF debt, primarily to directly fund loans, reimburse the Public Project Revolving Fund ("PPRF") loan fund for loans already made or to advance refund certain earlier bond issues.

Authority Programs

The authority accounts for each bond resolution or activity as a separate program, each with its own assets, liabilities, net assets, income and expense. The Public Project Revolving Fund is highlighted due to the significance of the program.

Public Project Revolving Fund

The Authority began its existence in 1992 to administer the PPRF. The mission of the PPRF is to make affordable tax-exempt financing for infrastructure projects available to borrowers who could not, on their own, access the bond market on a cost-effective basis. New Mexico's counties, cities and certain departments of state government qualify as entities who can borrow from the PPRF. Departments of state governments and certain not-for profit entities, including state universities, are also eligible borrowers. Since 1993, the PPRF has made 789 loans totaling $1.8 billion.

The PPRF makes loans of less than $5 million from its own funds on hand. It then reimburses its cash balance at a later date by "packaging" the loans as collateral and selling tax-exempt bonds. Loans for amounts larger than $5 million are funded by closing the loans on the same day a reimbursement bond issue closes.

The PPRF operates, in many respects, in the same manner as a bank or other lending institution. Infrastructure finance agencies similar to the PPRF are often called "bond banks." Financial statements for the PPRF are presented in the following pages in a format similar to that employed by commercial banking organizations.

New Mexico Finance Authority
Public Projects Revolving Fund
Statement of Net Assets
As of June 30

	FY 2009	FY 2008	Net Increase / (Decrease)	Percentage Increase / (Decrease)	FY 2007
Cash and cash equivalents	$ 99,584,576	$ 78,584,787	$ 20,999,789	26.7%	$ 62,173,143
Restricted	252,786,821	260,492,357	(7,705,536)	(3.0%)	146,572,672
Accounts receivable	16,111,757	21,930,398	(5,818,641)	(26.5%)	15,832,945
Loans receivable, net of allowance	1,050,541,321	1,000,026,726	50,514,595	5.1%	669,900,381
Intergovernmental receivables	127,848,087	122,760,000	5,088,087	4.1%	125,320,000
Other assets	10,992,276	11,095,194	(102,918)	-0.9%	9,522,247
Total assets	**$ 1,557,864,838**	**$ 1,494,889,462**	**$ 62,975,376**	**5.5%**	**$ 1,029,321,388**
Accounts payable and accrued liabilities	$ 4,678,201	$ 4,586,196	$ 92,005	2.0%	$ 3,469,291
Undisbursed loan proceeds	181,136,484	196,132,082	(14,995,598)	(7.6%)	74,268,789
Borrowers' debt service and reserve deposits	65,813,605	61,027,236	4,786,369	7.8%	43,293,816
Line of credit payable	-	-	-	0.0%	31,338,974
Bonds payable	54,343,000	57,957,000	(3,614,000)	-6.2%	31,018,000
Total current liabilities	305,971,290	319,702,514	(13,731,224)	-4.3%	183,388,870
Noncurrent liabilities					
Bonds payable, noncurrent, net	1,047,860,109	984,005,633	63,854,478	6.5%	647,530,090
Total liabilities	**1,353,831,399**	**1,303,708,147**	**50,123,254**	**3.8%**	**830,918,960**
Net assets					
Invested in capital assets	118,026	188,451	(70,425)	(37.4%)	202,551
Restricted for program funds	105,344,348	113,209,182	(7,864,834)	(6.9%)	137,381,159
Unrestricted	98,571,065	77,783,682	20,787,383	26.7%	60,818,718
Total net assets	**204,033,439**	**191,181,315**	**12,852,124**	**6.3%**	**198,402,428**
Total liabilities and net assets	**$ 1,557,864,838**	**$ 1,494,889,462**	**$ 62,975,378**	**2.5%**	**$ 1,029,321,388**

New Mexico Finance Authority
Public Projects Revolving Fund
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30

	FY 2009	FY 2008	Net Increase / (Decrease)	Percentage Increase / (Decrease)	FY 2007
Interest income					
Loans	$ 45,103,590	$ 38,683,071	$ 6,420,519	16.6%	$ 29,081,700
Investments	1,118,311	4,978,951	(3,860,640)	(77.5%)	4,256,980
Total interest income	**46,221,901**	**43,662,022**	**2,559,879**	**5.9%**	**33,338,680**
Interest expense					
Bonds	47,591,764	42,290,093	5,301,671	12.5%	28,889,309
Short-term borrowing	60,833	944,596	(883,763)	(93.6%)	-
Total interest expense	**47,652,597**	**43,234,689**	**4,417,908**	**10.2%**	**28,889,309**
Net interest income (expense)	(1,430,696)	427,333	(1,858,029)	(434.8%)	4,449,371
Less provision for loan losses	299,114	400,123	(101,009)	(25.2%)	185,427
Net interest income (expense) after provision for loan losses	**(1,729,810)**	**27,210**	**(1,757,020)**	**(6457.3%)**	**4,263,944**
Loan administration fees	4,689,716	2,786,246	1,903,470	68.3%	1,522,755
Appropriation revenues	25,645,568	27,341,776	(1,696,208)	(6.2%)	29,501,655
Total noninterest income	**30,335,284**	**30,128,022**	**207,262**	**0.7%**	**31,024,410**
Salaries and benefits	2,215,044	1,907,427	307,617	16.1%	1,667,377
Professional services	2,020,996	2,953,662	(932,666)	(31.6%)	1,719,541
Bond issuance costs	1,190,438	515,580	674,858	130.9%	423,016
Loss on investments	3,729,143	-	3,729,143	100.0%	-
Other	869,281	824,638	44,643	5.4%	889,292
Total noninterest expense	**10,024,902**	**6,201,307**	**3,823,595**	**61.7%**	**4,699,226**
Excess of revenue over expenses	**18,580,572**	**23,953,925**	**(5,373,353)**	**(22.4%)**	**30,589,128**
Transfers from (to) other funds or agencies	**(5,728,448)**	**(31,175,038)**	**25,446,590**	**(81.6%)**	**(100,765,291)**
Increase (decrease) in fund net assets	**12,852,124**	**(7,221,113)**	**20,073,237**	**(278.0%)**	**(70,176,163)**
Net assets, beginning of year	**191,181,315**	**198,402,428**	**(7,221,113)**	**(3.6%)**	**268,578,591**
Net assets, end of year	**$ 204,033,439**	**$ 191,181,315**	**$ 12,852,124**	**6.7%**	**$ 198,402,428**

Analysis of the PPRF's overall financial position and results of operations:

Loan volume:

	2009	2008	Since Inception
Amount of loans made	$121.6 million	$386.8 million	$1.849 billion
Number of loans made	82	90	789

Both average loan size and the number of loans made in 2009 declined from the previous year. Management believes that this was due to economic conditions in the state. Although New Mexico has been affected less severely than many states, there has been a decline in tax revenues collected by many cities and counties, leading local governments to become more cautious in their borrowing. The decline in loan volume is less dramatic than the above figures seem to suggest since fiscal 2008 includes one loan for $77 million. While the PPRF occasionally makes loans of this size, it does not do so regularly, and a loan of comparable size was not made in 2009.

Loans receivable:

There were no defaults on PPRF loans during 2009 and no delinquencies as of June 30, 2009.

Bond issuance:

During fiscal 2009, the PPRF issued 4 series of bonds, with a total par value of $114.3 million.

Net interest income:

As a not-for profit lender, the Authority attempts to pass on to its borrowers the same rates it pays on the bonds it issues to provide the funds it loans. In its planning and management processes, therefore, the Authority attempts to achieve zero net interest income in the PPRF. 1n 2008, the Authority met this goal, for practical purposes, with net interest income of only $27 thousand. In 2009, net interest income was negative $1.7 million. The loss resulted from the significant decline in interest rates experienced on the PPRF's investments during 2009.

Loss on Investments:

During 2009, the PPRF incurred a loss of $8.2 million due to losses suffered by a money market mutual fund in which the PPRF had invested. The circumstances of this loss are described in footnote 15.

Governmental Gross Receipts Tax:

The Governmental Gross Receipts Tax ("GGRT") is a tax imposed on the gross receipts of municipalities for services rendered to customers such as water, sewer, and solid waste collection. 75% of GGRT collections are appropriated to the PPRF. The Authority's share of GGRT collections was $21,494,438 in 2009, a $61,947 increase from the $21,431,491 received in 2008. The GGT funds are used:

1. as a credit enhancement for the PPRF bonds. In the event of defaults on loans, GGRT funds can be used to make up for any shortfall in funds available for bond payments.
2. to fund loans to borrowers, especially smaller loans which the Authority may choose to not reimburse in a bond issue.
3. To pay operating expenses of the PPRF.

Restatement of previously issued financial statements:

During 2009, the Authority restated its 2008 financial statements to recognize accounts receivable (intergovernmental receivables) from other governmental entities. The accounts receivable arose from transactions that occurred prior to 2008. A detailed explanation of the restatement is provided in footnote 12. The effect of the restatement was to increase the beginning net assets of the PPRF for fiscal year 2008 by $46 million.

Other Programs:

The PPRF accounts for a large portion of total Authority activity. At June 30, 2009 and for the year then ended, the relationships were as follows:

	PPRF	Total Authority	% PPRF
Total assets	$1.6 billion	$1.8 billion	87.0%
Net assets	$204.0 million	$394.1 million	51.8%
Revenues	$76.6 million	$147.0 million	52.1%

There are 14 other programs administered by the Authority, some of which are loan programs and some of which are grant programs. Loan and grant activity in these programs in 2009 and 2008 was as follows:

	FY 2009	FY 2008	Net Increase / (Decrease)	Percentage Increase / (Decrease)	FY 2007
Drinking Water Revolving Loan Fund	$ 22,139,294	$ 10,298,773	$ 11,840,521	115.0%	$ 6,138,562
Local Transportation Infrastructure Fund	969,542	181,475	788,067	434.3%	-
Water Projects Fund	22,728,950	19,338,532	3,390,418	17.5%	10,265,454
Economic Development Fund	222,447	202,796	19,651	9.7%	1,724,445
Local Government Transportation Fund	34,827,691	4,596,088	30,231,603	657.8%	-
Child Care Revolving Loan Fund	34,466	-	34,466	n/a	-
Behavioral Health Cigarette Tax Revenue Bond Fund	471,509	-	471,509	n/a	-
Water and Wastewater Project Grant Fund	3,210,290	2,164,356	1,045,934	48.3%	8,875,509
Local Governement Planning Grant Fund	268,240	205,625	62,615	30.5%	38,488
Total Assets	**$ 84,872,429**	**$ 36,987,645**	**$ 47,884,784**	**1313.0%**	**$ 27,042,458**

The increase in loan volume for the Drinking Water Revolving Loan Fund resulted from the Authority making a loan for approximately $15 million to the City of Santa Fe. This was an uncharacteristically large loan for this program.

The $30.2 million increase in grant volume for the Local Government Transportation Fund occurred because this is a new program for the Authority. The state legislature appropriated $87.8 million to the Authority in 2008 to provide grants to municipalities and counties for local transportation projects. The New Mexico Department of Transportation determines the priority of recipients of the grants. The Authority manages the funds received from the legislature and disburses the funds as directed by the Department of Transportation. In 2007, the program was in a start-up phase and relatively few grants were awarded. The program achieved its planned volume in 2008.

The Child Care and Behavioral Health programs were funded by the legislature in 2006, and the Authority began making loans in 2009.

In 2008, the Authority was awarded a $110 million allocation of New Markets Tax Credits by the U.S. Treasury Department. Under this program, the Authority can provide federal income tax credits to incentivize businesses to create jobs and otherwise contribute to the economic development of the state. During fiscal 2009, the Authority made one award of tax credits for $15.5 million. Subsequent to June 30, 2009, the Authority has made $30.4 million in additional awards. The tax credits have no impact on the financial statements of the Authority beyond the expenses incurred to administer the program and the fees charged to applicants and recipients of the credits, which are minimal.

Budgetary Variations, capital and infrastructure assets:

The Authority does not have any legally adopted budgets, and, therefore, does not present any budgetary information. The Authority has an immaterial amount of capital assets, and owns no infrastructure assets.

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

Statements of Net Assets
June 30, 2009 and 2008

	2009	As Restated 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 111,877,869	$ 88,756,143
Restricted cash	373,898,180	411,190,481
Tax revenue receivable	2,080,571	8,067,919
Interest receivable	8,248,801	8,365,828
Grant and other receivable	5,910,474	7,205,952
Administrative fees receivable	405,245	708,726
Loans receivable, net of allowance	1,113,608,650	1,041,033,758
Intergovernmental receivables	154,793,087	161,605,000
Restricted asset - escrow	659,798	653,574
Other assets	59,029	51,441
Total current assets	1,771,541,704	1,727,638,822
NONCURRENT ASSETS		
Capital assets, net of depreciation	197,828	377,984
Deferred cost, net of accumulated amortization	10,960,349	11,420,462
Total noncurrent assets	11,158,177	11,798,446
TOTAL ASSETS	$ 1,782,699,881	$ 1,739,437,268
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,556,821	$ 1,579,139
Accrued payroll	169,996	111,861
Compensated absences	226,830	200,238
Undisbursed loan proceeds	182,920,935	197,721,699
Accrued interest	3,857,403	3,646,489
Due to other state agencies	800,000	1,075,831
Debt service payable	66,071,327	61,634,993
Bonds payable, current, net	57,878,000	62,119,000
Total current liabilities	313,481,312	328,089,250
NONCURRENT LIABILITIES		
Bonds payable, noncurrent, net	1,075,076,148	1,022,818,292
Total noncurrent liabilities	1,075,076,148	1,022,818,292
Total liabilities	1,388,557,460	1,350,907,542
NET ASSETS		
Invested in capital assets	197,828	377,984
Restricted for debt service	8,962,319	9,921,093
Restricted for program funds	274,378,249	289,676,812
Unrestricted	110,604,025	88,553,837
Total net assets	394,142,421	388,529,726
TOTAL LIABILITIES AND NET ASSETS	$ 1,782,699,881	$ 1,739,437,268

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

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	As Restated 2008
OPERATING REVENUES		
Appropriation revenue	$ 52,379,731	$ 136,293,957
Grant revenue	36,494,181	27,209,672
Administrative fees	7,670,438	5,730,102
Interest on loans	47,590,234	41,142,152
Interest on investments	2,890,591	10,927,088
Total operating revenues	147,025,175	221,302,971
OPERATING EXPENSES		
Grant expense	59,785,212	26,380,010
Bond issuance costs	1,604,245	501,042
Administrative fee	241,866	310,190
Professional services	3,642,941	3,965,930
Salaries and fringe benefits	3,860,505	3,202,868
In-state travel	118,950	80,975
Out-of-state travel	57,960	51,564
Operating costs	958,017	1,015,651
Provision for loan losses	619,113	400,124
Interest expense	49,418,130	45,684,800
Total operating expenses	120,306,939	81,593,154
Operating income before depreciation	26,718,236	139,709,817
Depreciation	212,913	93,487
Total operating income	26,505,323	139,616,330
NON-OPERATING REVENUES (EXPENSES)		
Loss on investments	(8,205,430)	-
Income before transfers	18,299,893	139,616,330
TRANSFERS		
Transfers from (to) other state agencies	(12,687,198)	(37,328,353)
CHANGE IN NET ASSETS	5,612,695	102,287,977
TOTAL NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	388,529,726	286,241,749
TOTAL NET ASSETS, END OF YEAR	$ 394,142,421	$ 388,529,726

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

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	As Restated 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid for employee services	$ (3,775,777)	$ (3,161,959)
Cash paid to vendors for services	(4,280,350)	(5,909,350)
Bond issuance costs	(156,799)	(2,535,633)
Interest expense paid	(51,254,313)	(41,628,467)
Grants disbursed	(59,785,212)	(26,380,010)
Appropriation revenue	70,776,650	149,758,189
Cash received from federal government for revolving loans	21,221,852	13,856,874
Interest income received	46,147,529	49,232,249
Administrative fees received	7,913,572	4,847,590
Transfers from other funds	7,201,087	776,177
Net cash flows provided by operating activities	34,008,239	138,855,658
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash paid for services	(12,687,198)	(37,328,353)
Cash provided (used) by funds held for others	(14,800,764)	122,171,753
Net cash provided by (used in) noncapital financing activities	(27,487,962)	84,843,400
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Investment in partnership	(1,550)	-
Loans funded	(155,191,967)	(397,106,941)
Loan payments received	88,966,814	61,391,765
Bonds issued	115,463,896	398,350,842
Payment of bonds	(65,795,000)	(41,881,000)
Debt service	(4,100,287)	15,719,108
Line of credit payments	-	(31,338,974)
Capital asset purchase	(32,758)	(29,788)
Net cash provided by (used in) capital financing activities	(20,690,852)	5,105,011
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,170,575)	228,804,069
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	499,946,624	271,142,555
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 485,776,049	$ 499,946,624
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 26,505,323	$ 139,616,330
Adjustments to reconcile cash and cash equivalents provided by operating activities:		
Depreciation and amortization	794,940	60,230
(Increase) decrease in prepaids and receivables	6,447,984	(4,387,636)
Increase (decrease) in payables and other accrued liabilities	259,992	3,566,734
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 34,008,239	$ 138,855,658
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 49,418,130	$ 45,684,800

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

Agency Funds – Statement of Assets and Liabilities
Year Ended June 30, 2009

	Agency Funds
ASSETS:	
Cash at Trustee:	
Program funds	$ 118,830,704
Expense funds	1,931,751
Bond reserve funds	42,292,167
TOTAL ASSETS	$ 163,054,622
LIABILITIES:	
Accounts payable	$ 3,466,620
Debt service payable	49,454,819
Funds held for the NM Department of Transportation	110,133,182
TOTAL LIABILITIES	$ 163,054,622

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

Agency Funds – Statement of Changes in Assets and Liabilities
Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Department of Transportation Revenue Bonds, Series 2004				
Fund 315				
ASSETS				
Cash and investments	$ 144,490,815	$ 64,729,527	$ 126,681,479	$ 82,538,863
TOTAL ASSETS	$ 144,490,815	$ 64,729,527	$ 126,681,479	$ 82,538,863
LIABILITIES				
Deposit held in trust for others	$ 144,490,815	$ 64,729,527	$ 126,681,479	$ 82,538,863
TOTAL LIABILITIES	$ 144,490,815	$ 64,729,527	$ 126,681,479	$ 82,538,863
Department of Transportation Revenue Bonds, Series 2006				
Fund 322				
ASSETS				
Cash and investments	$ 232,347,119	$ 20,059,042	$ 175,547,038	$ 76,859,122
TOTAL ASSETS	$ 232,347,119	$ 20,059,042	$ 175,547,038	$ 76,859,122
LIABILITIES				
Deposit held in trust for others	$ 232,347,119	$ 20,059,042	$ 175,547,038	$ 76,859,122
TOTAL LIABILITIES	$ 232,347,119	$ 20,059,042	$ 175,547,038	$ 76,859,122
Department of Transportation Refunding Revenue Bonds, Series 2008				
Fund 326				
ASSETS				
Cash and investments	$ 3,334,907	$ 35,513,856	$ 35,192,127	$ 3,656,637
TOTAL ASSETS	$ 3,334,907	$ 35,513,856	$ 35,192,127	$ 3,656,637
LIABILITIES				
Deposit held in trust for others	$ 3,334,907	$ 35,513,856	$ 35,192,127	$ 3,656,637
TOTAL LIABILITIES	$ 3,334,907	$ 35,513,856	$ 35,192,127	$ 3,656,637

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

NATURE OF ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act) is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer; the Secretary of the Department of Finance and Administration; the Secretary of Economic Development; the Secretary of Energy, Minerals and Natural Resources; the Secretary of the Environment Department; the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of the Senate, appoints to the Authority Board, the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

Bonds and other obligations issued by the Authority under the provisions of the Act are not a debt or liability of the state or any subdivision thereof.

The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

The Authority is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39. 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, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

- **Basis of Presentation**

The accounts of the Authority are organized on the basis of programs and activities, each of which is considered a separate accounting entity. The operations of each project are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, expenditures or expenses and other financing sources or uses.

All of the Authority's activities are reported as an enterprise fund as defined by GASB Statement No. 34. Enterprise funds are used for activities for which a fee is charged to external users for goods and services. Financial reporting for enterprise funds conforms to accounting principles generally applicable to the transactions of similar commercial enterprises and utilizes the full accrual method of accounting.

The following describes the nature of the projects and programs maintained by the Authority:

Public Project Revolving Fund – Accounts for the proceeds from bonds, the debt service requirements of the bonds, the related loans to public entities and the governmental gross receipts tax (GGRT) which is the primary funding source of this program.

Drinking Water State Revolving Loan Program – Accounts for activities of a loan program which provides low cost financing for the construction of and improvements to drinking water facilities throughout New Mexico in order to protect drinking water quality and public health. This program is primarily funded through a federal capitalization grant which the State of New Mexico is required to match the federal grant by 20%.

Water Projects Program – Accounts for the activities related to administration of a financing program to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Program provides grant and interest free loans to support the water projects.

Local Government Transportation Program – Accounts for activities to provide funding for 116 legislatively authorized local government transportation projects. The funding for this Program is made up of a $25 million appropriation from the State's General Fund and up to $150 million in proceeds realized from the issuance and sale of severance tax bonds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Basis of Presentation** (continued)

Local Transportation Infrastructure Program – Accounts for activities for local government road and transportation projects which are not eligible for federal funding and funding for which have not been bet by the existing Local Government Road Fund. The Program provides for grants and low-cost financial assistance for these local governments transportation projects.

Economic Development Program – Accounts for activities for the Statewide Economic Development Finance Act (SWEDFA). This program provides comprehensive financing tools to stimulate economic development projects statewide.

New Markets Tax Credit Program – Accounts for the activities of the Authority as the managing partner in Finance New Mexico LLC, a subsidiary for-profit company which received an allocation of federal tax credits under the New Markets Tax Credit Program. This Program was created to account for costs associated with the application process and other start-up costs as well as management activities undertaken by the Authority, as managing partner of this for-profit company.

Child Care Revolving Loan Program – Partners the Authority with Children, Youth and Families Department to provide low cost financing to licensed child care providers to fund improvements to their facilities.

Behavioral Health Cigarette Tax Revenue Bond Program – Provides low cost capital to behavioral health clinics in rural and underserved areas of the state. The Program provides low cost funding through a revolving loan to non-profit behavioral health care providers.

Primary Care Capital Program – A revolving fund which provides financial assistance to rural primary care health clinics for infrastructure, construction and capital equipment purchases. These loans provides for a 20 percent annual loan forgiveness if the borrower agrees to a contract-for-services to provide medical care free or at reduced prices to sick and indigent clients.

Water and Wastewater Project Grant Program – Accounts for activities for providing grant funding for water and wastewater system projects authorized by legislation.

Local Government Planning Grant Program – program to make grants to qualified entities on a per project basis for water and wastewater related studies, long term water management plans and economic development plans.

State Office Building Financing Program – Provides for the financing of state office building projects consisting of acquisition, construction, equipping and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The funding for this program is provided by $6.36 million annual appropriation from the State Gross Receipts Tax.

State Capital Improvement Financing Program – Accounts for the issuance of revenue bonds the proceeds of which were used to finance capital improvements to a state facility located adjacent to the State Capitol. The financing is secured by distributions by the State Treasurer of income from the land grant fund to the capitol buildings improvement repair fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Basis of Presentation - Fund Accounting** (continued)

UNM Health Sciences Program – Accounts for the financing of several capital projects for UNM Health Sciences Center. The Authority issued bonds, secured by authorized distributions of cigarette excise taxes, for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center.

Workers Compensation Financing Program – Accounts for the issuance of revenue bonds used to finance the planning, designing, constructing, equipping and furnishing of a state office building for the Workers' Compensation Administration. The bonds are secured by the first 10% of workers' compensation fee assessments received by the State. Any excess revenues received after all current obligations and sinking fund requirements are transferred to Workers' Compensation Administration.

Equipment Loan Program – Accounts for the Pooled Equipment Certificates of Participation issued by the Authority to assist local government entities in the financing and purchase of equipment. The loans for these financings are the only sources of repayments for these Certificates of Participation ("COPS") and are secured by various local government revenues which are directly intercepted from the State of New Mexico.

- **Basis of Accounting and Measurement Focus**

The basis of accounting for the programs administered by the Authority is determined by measurement focus. The flow of economic resources measurement focus and the accrual basis of accounting are used to account for the Authority's funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of these programs are included in the Statements of Net Assets.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate programs. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific program. All other revenues are recognized when received as they are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources.

- **Use of Estimates**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Restricted Assets**

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Balance Sheets because their use is limited by applicable bond covenants or legislation.

- **Cash and Cash Equivalents and Restricted Cash**

Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo Bank and with the Bank of New York Mellon acting as bond trustee. Cash in the various programs on deposit with the State Treasurer is invested by the New Mexico State Treasurer in a pooled investment program which is a AAA-rated money market mutual fund.

Deposits with Wells Fargo Bank are collateralized at 50% with U.S. Treasury or "full faith and credit" U.S. Agency securities as required New Mexico law.

The restricted cash includes the following: Debt service and bond reserve accounts are used to report resources held by trustee and set aside for future debt service payments. A program-grant proceeds account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The program-bond proceeds account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The expense fund account is used to cover professional expenses incurred during the bond offering process.

For purposes of the Statements of Cash Flows, the Authority considers all highly liquid assets with a maturity of three months or less when purchased to be cash equivalents.

- **Accounts Receivable**

Accounts receivable consists of payments due from the governments, administrative fees due from projects, and other miscellaneous receivables arising from the normal course of operations. A reserve for uncollectible accounts is established based on management's estimates.

- **Loans Receivable**

Loans are carried at amounts advanced, net of collections and reserves for loan losses, if any. As of June 30, 2009, there were no reserves for loan losses. Loans that become past due as to principal and interest are evaluated for collectability. Generally, loans are not placed on non-accrual status because they are insured or otherwise guaranteed.

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. At June 30, 2009 and 2008, the allowance for loan losses was $1,687,083 and $1,067,970, respectively.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

- **Intergovernmental Receivables**

Intergovernmental receivables consist of amounts due from the state based on legislated appropriation of specified taxes for repayment of certain bonds issued by the Authority on behalf of state entities. The related statute directs the Authority to issue bonds and make proceeds available to specified state entities to fund various projects. The statute appropriates a portion of existing taxes or fees to fund the payment of the related bonds.

- **Capital Assets**

Capital assets are recorded at historical cost and depreciated over their estimated useful lives. Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $5,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

- **Bond Discounts, Premiums, Issuance Costs, and Deferred Costs**

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

- **Compensated Absences**

Full-time employees are entitled to fifteen days vacation leave with ten years or less employment with the Authority. Employees with more than ten years receive twenty days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid vacation leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

- **Undisbursed Loan Proceeds**

Undisbursed loan proceeds represent loan proceeds held by the Trustee which are awaiting disbursement to the loan applicant. Funds are not automatically disbursed in their entirety when a loan closes. Proceeds are disbursed as the related project costs are incurred. The accounts, in the majority, represent the loans against the PPRF program and funds held by the Trustee.

- **Debt Service Payable**

Debt service amounts payable represent the amounts received from loan recipients which have not been applied as a payment against their loan as well as debt service reserve accounts funded from the loan proceeds. The Authority applies loan payments semi-annually; therefore, any payments received prior to being applied to the loan are held in an account which earns interest and the interest is credited to the entity. These funds are held by the Trustee, and in accounts at the State Treasurer's office.

- **Net Assets**

The financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

> *Investment in capital assets* (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.
>
> *Restricted assets* are liquid assets that have third-party (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Authority spends restricted resources first.
>
> *Unrestricted assets* represent assets not otherwise classified as invested in capital assets or restricted assets.

When both restricted and unrestricted net assets are available for expenses, unrestricted funds are applied first.

- **Income Taxes**

The Authority is a tax-exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Interprogram and Interagency Transactions**

Interprogram and interagency transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a program for expenses initially incurred by it that are properly applicable to another program are recorded as expenses in the reimbursing program and as reductions of expenses in the program that is reimbursed. All other interprogram transactions are reported as transfers. Non-recurring or non-routine transfers of net assets as restricted net asset transfers. All other transfers are recorded as operating transfers to other state agency under the other financial services category.

- **Reclassifications**

Certain reclassifications have been made to the prior year's financial statements to conform with the current year presentation.

- **New Accounting Pronouncements**

The Authority has adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49). The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Once any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

Obligating events include: 1) the government is compelled to take pollution remediation action because of imminent endangerment; 2) the government violates a pollution prevention-related permit or license; 3) the government is named or will be named as a responsibility party for remediation or for sharing costs; 4) the government is named or will be named in a lawsuit to compel participating in pollution remediation; and 5) the government commences or legally obligates itself to commence pollution remediation.

For fiscal year 2009, the Authority has not encountered any obligating events which would result in an accrued liability or capitalized asset.

2. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE

The following is a reconciliation of cash and cash equivalents to the financial statements.

	2009	2008
State Treasurer Local Government Investment Pool	$139,875,817	$147,117,448
The Primary Care Capital Fund held at the State Treasurer's Office	1,660,605	545,566
State Treasurer's Office cash held at Bank of Albuquerque in money market accounts	98,589,410	21,600,027
Bank of Albuquerque trust accounts	236,140,975	246,849,598
Reserve on Bond Payable held in Bank of America	279,359	279,359
Wells Fargo operating accounts	7,974,376	1,100,832
Cash held at The Reserve Primary money market fund	1,255,507	82,453,794
Total	$485,776,049	$499,946,624

Cash and cash equivalents are reflected in the Statement of Net Assets as follows:

	2009	2008
Cash and cash equivalents	$111,877,869	$ 88,756,143
Restricted cash	373,898,180	411,190,481
Total	$485,776,049	$499,946,624

The Authority's State Treasurer funds are contained in the New Mexico*GROW* Local Government Investment Pool, a Securities and Exchange Commission registered money market fund rated AAAm by Standard & Poor's, and at June 30, 2009, are valued at $139,875,817 with a 43-day WAM.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The sources of funds are financing program bond proceeds, pledged revenues 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.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its collateral securities that are in the possession of an outside party. All are fully collateralized and the collateral is held in the Authority's name.

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government.

2. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE (CONTINUED)

Concentration of Credit Risk. Concentration of credit risk is defined as investments of more than 5% in any one issuer.

Interest Rate Risk. Interest rate risk is the risk that interest rate fluctuations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the value of securities held in a collateral portfolio will decline if market interest rates rise. In this event, the financial institution is required to provide additional collateral necessary to comply with New Mexico State Statute.

3. LOANS RECEIVABLE

Loans receivable balances consist of the following at June 30:

Program	Length of Loan (Years)	Rates	As Restated 2008	Additions	Payments	2009
Public Projects Revolving Loan Fund	1 to 30	0% to 6%	$ 1,001,094,696	$ 121,621,170	$ 70,807,461	$ 1,051,908,405
Drinking Water State Revolving Loans	5 to 30	0% to 3%	30,907,764	22,139,294	1,198,908	51,848,151
Primary Care Capital Fund Loans	10 to 20	3%	7,176,671	-	1,082,260	6,094,411
Water Projects Fund Loan Grants	10 to 20	0%	316,651	2,230,910	276,653	2,270,908
Smart Money Participation Loans	3 to 20	2% to 5%	1,825,254	222,447	68,272	1,979,429
Behavioral Health Care Loan	15	3%	369,692	-	32,237	337,455
Cigarette Tax - Behavioral Health Care Capital Loans	15	3%	-	480,000	8,491	471,509
Pooled Equipment Certificates of Participation Loans	5 to 20	4% to 6.4%	411,000	-	62,000	349,000
Child Care Revolving Loans	15	3%	-	36,466	-	36,466
		Subtotals	1,042,101,728	146,730,287	73,536,282	1,115,295,733
		Less: Allowance for loan losses	(1,067,970)	(619,113)	-	(1,687,083)
		Totals	$ 1,041,033,758	$ 146,111,174	$ 73,536,282	$ 1,113,608,650

3. LOANS RECEIVABLE (CONTINUED)

The following is a summary of the future loan payments to be collected on the loan repayment schedules as of June 30, 2009.

Totals – Loans Receivable, Net of Allowance

Fiscal year ending June 30:	Principal	Interest	Total
2010	$ 64,956,975	$ 43,178,849	$ 108,135,824
2011	64,722,920	41,372,393	106,095,313
2012	68,553,397	39,194,305	107,747,701
2013	70,690,235	36,901,922	107,592,156
2014	68,659,368	34,421,506	103,080,875
2015 - 2019	318,381,024	134,671,432	453,052,456
2020 - 2024	243,121,069	77,730,493	320,851,562
2025 - 2029	128,514,983	35,381,667	163,896,651
2030 - 2034	62,570,310	14,884,810	77,455,120
2035 - 2039	25,125,451	2,677,015	27,802,466
Subtotals	1,115,295,733	$ 460,414,392	$ 1,575,710,126
Less: Allowance for loan losses	(1,687,083)		
Loans receivable, net	$ 1,113,608,650		

4. INTERGOVERNMENTAL RECEIVABLES

The Authority has agreements with various state entities relating to the issuance of bonds. Pursuant to the underlying legislation and resolutions, the bond proceeds financed various State projects. Pursuant to the legislation, the debt service on these bonds is payable solely from revenues from the State and State entities. Intergovernmental receivables represent amounts due to the Authority under these agreements.

4. INTERGOVERNMENTAL RECEIVABLES (CONTINUED)

At June 30, 2009, the intergovernmental receivables are comprised of the following:

State Entity	Revenue Pledge	Rates	Terms	2009	As Restated 2008
Administrative Office of the Courts	Court Facilities fees	3.05% to 5.0%	June 1, 2025	$ 49,030,000	$ 51,015,000
University of New Mexico Health Sciences Center	Cigarette excise tax	3.875% to 5.0%	June 1, 2025	23,630,000	23,630,000
General Services Department - State of New Mexico	State Gross Receipts tax	4.25% to 5.0%	June 1, 2036	47,430,000	48,115,000
University of New Mexico Health Sciences Center	Cigarette excise tax	2.25% to 5.0%	April 1, 2019	19,855,000	22,460,000
University of New Mexico Health Sciences Center	Cigarette excise tax	2.13% to 3.94%	April 1, 2019	7,758,087	8,460,000
Worker's Compensation Adminstration	Worker's Compensation administrative fee	5.35% to 5.60%	September 1, 2016	2,315,000	2,540,000
General Services Department - State of New Mexico	Income from Land Grant Permanent Fund	3.875% to 5.0%	June 1, 2025	4,775,000	5,385,000
				$ 154,793,087	$ 161,605,000

The following is a summary of the future loan payments to be collected on the intergovernmental receivables as of June 30, 2009.

Fiscal year ending June 30:	Principal	Interest	Total
2010	$ 6,950,562	$ 7,497,080	$ 14,447,642
2011	7,031,285	7,190,853	14,222,138
2012	7,065,435	6,875,931	13,941,366
2013	7,191,962	6,550,955	13,742,917
2014	7,420,628	6,191,610	13,612,238
2015 - 2019	37,223,215	25,554,111	62,777,326
2020 - 2024	42,425,000	16,227,813	58,652,813
2025 - 2029	18,780,000	7,193,463	25,973,463
2030 - 2034	14,030,000	3,844,000	17,874,000
2035 - 2036	6,675,000	504,750	7,179,750
Intergovernmental receivables	$ 154,793,087	$ 87,630,564	$ 242,423,651

5. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2008	Additions	Adjustments/ Deletion	Balance June 30, 2009
Depreciable assets:				
Furniture and fixtures	$ 198,802	$ -	$ -	$ 198,802
Computer hardware and software	533,537	32,757	-	566,294
Machinery and equipment	48,490	-	-	48,490
Leasehold improvement	49,117	-	-	49,117
	829,946	32,757	-	862,703
Accumulated depreciation:				
Furniture and fixtures	(108,581)	(51,152)	-	(159,733)
Computer hardware and software	(290,073)	(136,647)	-	(426,720)
Machinery and equipment	(26,826)	(12,638)	-	(39,464)
Leasehold improvement	(26,482)	(12,476)	-	(38,958)
	(451,962)	(212,913)	-	(664,875)
Net total	$ 377,984	$ (180,156)	$ -	$ 197,828

	Balance June 30, 2007	Additions	Adjustments/ Deletion	Balance June 30, 2008
Depreciable assets:				
Furniture and fixtures	$ 198,802	$ -	$ -	$ 198,802
Computer hardware and software	508,076	25,461	-	533,537
Machinery and equipment	40,250	8,240	-	48,490
Leasehold improvement	49,117	-	-	49,117
	796,245	33,701	-	829,946
Accumulated depreciation:				
Furniture and fixtures	(84,643)	(23,938)	-	(108,581)
Computer hardware and software	(231,796)	(58,277)	-	(290,073)
Machinery and equipment	(20,933)	(5,893)	-	(26,826)
Leasehold improvement	(21,103)	(5,379)	-	(26,482)
	(358,475)	(93,487)	-	(451,962)
Net total	$ 437,770	$ (59,786)	$ -	$ 377,984

6. BONDS PAYABLE

Bonds have been issued to provide financing for various Authority programs and are collateralized as follows:

- Loan Agreements and securities executed and delivered by governmental units in consideration for the financing of all or a portion of their respective projects by the Authority.
- Amounts held in the Agreement Reserve Accounts.
- Additional pledged loans.
- Revenues received by the Authority from the allocation of the Authority's portion of the Governmental Gross Receipts tax.
- Revenues pledged through legislation as security for the payment of principal and interest on bonds. These revenues include Cigarette Excise Tax, State Gross Receipts Tax, Worker's Compensation Fees and Income from Land Grant Permanent Fund.

Bonds payable consist of the following at June 30:

Bond Series	Rate	Maturities	2009	2008
Public Project Revolving Fund Revenue Bonds – Senior Lien				
1999 A	4.45% to 4.75%	June 1, 2010 to June 1, 2018	$ 5,475,000	$ 6,255,000
1999 B	4.60% to 5.00%	June 1, 2010 to June 1, 2018	945,000	1,075,000
1999 C	6.05% to 6.60%	June 1, 2010 to June 1, 2018	420,000	550,000
1999 D	6.25% to 6.80%	June 1, 2010 to June 1, 2018	1,740,000	1,880,000
2000 A	4.20% to 5.00%	(matured in August 2008)	-	200,000
2000 B	4.20% to 5.00%	(matured in June 2009)	-	360,000
2000 C	4.20% to 5.00%	(matured in June 2009)	-	835,000
2002 A	4.20% to 5.00%	June 1, 2010 to June 1, 2023	16,345,000	19,975,000
2003A	3.20% to 4.75%	June 1, 2010 to June 1, 2032	20,326,000	21,959,000
2003 B	4.25% to 5.00%	June 1, 2010 to June 1, 2021	17,145,000	19,340,000
2004 A-1	2.60% to 4.63%	June 1, 2010 to June 1, 2031	17,090,000	19,360,000
2004 A-2	4.13% to 5.88%	June 1, 2010 to June 1, 2027	12,485,000	12,905,000
2004 B-1	5.00% to 5.38%	June 1, 2010 to June 1, 2033	33,345,000	36,770,000
2004 B-2	4.57% to 6.00%	June 1, 2010 to June 1, 2018	1,020,000	1,105,000
2004 C	3.25% to 5.25%	June 1, 2010 to June 1, 2024	139,140,000	146,170,000
2005 A	4.00% to 4.25%	June 1, 2010 to June 1, 2025	13,505,000	15,145,000
2005 B	3.25% to 4.25%	June 1, 2010 to June 1, 2020	12,145,000	12,665,000
2006 B	4.00% to 5.00%	June 1, 2010 to June 1, 2036	35,050,000	36,410,000
2006 D	4.25% to 5.00%	June 1, 2010 to June 1, 2036	50,885,000	51,785,000
2007 E	4.00% to 5.00%	June 1, 2010 to June 1, 2032	56,395,000	60,960,000
2008 A	3.00% to 5.00%	June 1, 2010 to June 1, 2038	153,720,000	157,615,000
2008 B	4.00% to 5.25%	June 1, 2010 to June 1, 2035	34,535,000	-
2008 C	3.25% to 6.00%	June 1, 2010 to June 1, 2033	28,620,000	-
2009 A	2.00% to 5.00%	June 1, 2010 to June 1, 2038	18,435,000	-
2009 B	2.50% to 5.50%	June 1, 2010 to June 1, 2039	30,225,000	-
			698,991,100	623,319,000

6. BONDS PAYABLE (CONTINUED)

Bond Series	Rate	Maturities	2009	2008
Public Project Revolving Fund Revenue Bonds – Subordinate Lien				
2005 C	3.50% to 5.00%	June 15, 2010 to June 15, 2025	$ 49,030,000	$ 50,395,000
2005 D	4.38%	(matured in June 2009)	-	620,000
2005 E	3.88% to 5.00%	June 15, 2013 to June 15, 2025	23,630,000	23,630,000
2005 F	3.75% to 5.00%	June 15, 2010 to June 15, 2025	20,095,000	21,035,000
2006 A	4.00% to 5.00%	June 15, 2010 to June 15, 2035	48,180,000	49,090,000
2006 C	4.00% to 5.00%	June 15, 2010 to June 15, 2026	35,760,000	37,485,000
2007 A	4.00% to 5.00%	June 15, 2010 to June 15, 2027	30,440,000	32,295,000
2007 B	4.00% to 5.00%	June 15, 2010 to June 15, 2034	34,175,000	37,490,000
2007 C	4.25% to 5.25%	June 15, 2010 to June 15, 2027	125,045,000	129,360,000
			366,355,000	361,400,000
	Subtotals – PPRF Bonds		1,065,346,000	1,004,719,000
Pooled Equipment Certificates of Participation (COPS)				
1995 A	6.30% to 6.30%	Oct. 1, 2010 to Oct. 1 , 2015	172,000	191,000
1996 A	5.80% to 5.80%	April 1, 2010 to April 1, 2016	51,000	57,000
1996 B	5.90% to 5.90%	April 1, 2010 to April 1, 2012	126,000	163,000
		Subtotals	349,000	411,000
Worker's Compensation Administration Building Revenue Bonds				
1996	5.45% to 5.60%	Sept. 1, 2010 to Sept. 1, 2016	2,315,000	2,540,000
State Capitol Building Improvement Revenue Bonds				
1999	7.00%	Sept. 15, 2009 to Mar 15, 2015	4,775,000	5,385,000
Cigarette Tax Revenue Bonds – UNM Health Sciences Center Project				
2004 A	3.00% to 5.00%	April 1, 2010 to April 1, 2019	19,855,000	22,460,000
Cigarette Tax Revenue Bonds – UNM Health Sciences Center Project				
2004 B	Variable Rate	(Matured in November 2008)	-	8,460,000
Cigarette Tax Revenue Bonds – Behavioral Health Projects				
2006	5.51%	May 1, 2010 to May 1, 2026	2,125,000	2,250,000
	Total bonds outstanding		1,094,765,000	1,046,225,000
	Add: Net unamortized premium		39,917,386	41,039,870
	Less: Deferred charge on refundings		(1,728,238)	(2,327,578)
	Total bonds payable, net		1,132,954,148	1,084,937,292
	Less: Current portion of bonds payable		(57,878,000)	(62,119,000)
	Noncurrent portion of bonds payable		$ 1,075,076,148	$ 1,022,818,292

6. BONDS PAYABLE (CONTINUED)

Maturities of bonds payable and interest are as follows:

	Principal	Interest	Total
Fiscal year ending June 30:			
2010	$ 57,878,000	$ 52,447,922	$ 110,325,922
2011	57,458,000	50,174,558	107,632,558
2012	62,635,000	47,669,720	110,304,720
2013	64,997,000	44,885,305	109,882,305
2014	63,944,000	41,882,714	105,826,714
2015 – 2019	304,800,000	164,502,534	469,302,534
2020 – 2024	251,801,000	95,164,226	346,965,226
2025 – 2029	129,012,000	41,911,718	170,923,718
2030 – 2034	72,375,000	18,395,493	90,770,494
2035 – 2039	29,865,000	3,220,375	33,085,375
	1,094,765,000	$ 560,254,565	$1,655,019,566
Add: Unamortized premium	39,917,386		
Less: Deferred charge on refunding	(1,728,238)		
Bonds payable, net	$ 1,132,954,148		

The bonds payable activity for the years ending June 30, 2009 and 2008 was as follows:

	2009				
	Beginning Balance	**Additions**	**Decreases**	**Ending Balance**	**Due in One Year**
Bonds payable	$1,046,225,000	$114,335,000	$ (65,795,000)	$1,094,765,000	$ 57,870,000
Add: Unamortized premium	41,039,870	1,128,896	(2,251,380)	39,917,386	-
Less: Deferred charge on refunding	(2,327,578)	-	599,340	(1,728,238)	-
Total	$1,084,937,292	$115,463,896	$ (67,447,040)	$1,132,954,148	$ 57,878,000

	2008			
	Beginning Balance	**Additions**	**Decreases**	**Ending Balance**
Bonds payable	$ 696,861,000	$ 391,245,000	$ (41,881,000)	$1,046,225,000
Add: Unamortized premium	32,085,054	11,027,107	(2,072,291)	41,039,870
Less: Deferred charge on refunding	(3,065,686)	-	738,108	(2,327,578)
Total	$ 725,880,368	$ 402,272,107	$ (43,215,183)	$1,084,937,292

6. BONDS PAYABLE (CONTINUED)

The Authority enters into swap agreements as agent for the state agencies to which the bonds relate. In all swap agreements, the Authority receives a variable interest rate payment based on an index, and makes a fixed rate payment. This arrangement has the effect of converting the variable rate bonds to fixed rate. As agent, no amounts with respect to swap transactions are included in the Authority's financial statements.

7. DEBT SERVICE PAYABLE

Debt service payable represents the amounts received from loan recipients which have not been applied as a payment against their loan as well as debt service reserve accounts funded from the loan proceeds. The Authority applies loans payments semi-annually, therefore, any payments received prior to being applied to the loan is held in an account which earns interest and the interest is credited to the entity. These funds are held by the trustee, and in accounts at the State Treasurer's office. The balance of debt service payable was $66,071,327 and $61,634,993 at June 30, 2009 and 2008, respectively.

8. LINE OF CREDIT

The Authority maintains a credit facility with the Bank of America for the PPRF which provides for a borrowing limit of up to $75,000,000. The terms of the credit facility require payment in full of any outstanding balance from the proceeds of the next PPRF bond issue. Interest is due monthly on the outstanding balance, and accrues at 65% of U.S. dollar monthly LIBOR plus 90 basis points. The Authority pays a 20 basis point fee on the unused portion of the facility. No balances were outstanding under the line of credit at June 30, 2009 and 2008.

9. OPERATING LEASE COMMITMENT

The Authority is committed under various lease agreements for office space, a vehicle, and office equipment. These leases are considered to be operating leases. Lease expenditures for the years ended June 30, 2009 and 2008 were $330,506 and $316,000, respectively.

Future minimum lease payments for these leases are as follows:

Years ending June 30:	
2010	$ 460,218
2011	377,480
2012	378,055
2013	368,897
2014	376,274
2015	254,172
Total	$ 1,832,986

10. RETIREMENT PLANS

The Authority's retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make an additional, voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee over five years. The contributions are invested in various mutual funds selected by the employee. The Authority's contributions for this retirement plan were $417,088 and $361,328 for the years ended June 30, 2009 and 2008, respectively. Substantially all full time employees participate in this plan.

The Authority maintains a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code for its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the years ended June 30, 2009 and 2008 were $43,823 and $14,106, respectively.

11. COMPENSATED ABSENCES

The following changes occurred in the compensated absences liabilities:

Balance July 1, 2007	$ 192,088
Additions	214,584
Deletions	(206,434)
Balance, June 30, 2008	200,238
Additions	219,655
Deletions	(193,063)
Balance June 30, 2009	$ 226,830

The portion of compensated absences due after one year is not material and, therefore, not presented separately

12. AGENCY TRANSACTIONS

The Authority was authorized in 2003 to issue $1.585 billion of bonds as agent for the New Mexico Department of Transportation (NMDOT). To date, $1.150 billion has been issued. Of the total issued to date, $420 million is variable rate debt with associated interest rate exchange agreements. The remainder is fixed-rate debt.

Debt service for the bonds is payable solely from certain revenues of the Department of Transportation. In the opinion of legal counsel, there is no claim that could be asserted against the Authority's assets for payment of debt service on the bonds. These bonds are not reflected in the Authority's financial statements. The Authority receives an annual fee from the Department of Transportation of 12.5 basis points of the outstanding bonds for management of the bond issues. The bonds were issued by the Authority as agent for the NMDOT. The bonds are liabilities of NMDOT, not the Authority.

13. LOSS ON INVESTMENTS

During fiscal 2009, the Authority invested a portion of its cash in the Reserve Primary Fund, a money market mutual fund. In September 2009, the fund disclosed that it anticipated that shareholders would experience a loss on their investment resulting from the bankruptcy filing of Lehman Bros. in whose bonds the fund had invested a portion of its cash. On the date of the Lehman Bros. bankruptcy filing, the Authority had an investment balance of $71.2 million in the fund. The Authority also had an investment totaling $27.9 million in a money market mutual fund managed by the New Mexico State Treasurer that also had an investment in the Reserve Primary fund.

The fund is still in the liquidation process and it is not certain how much the Authority will ultimately recover. Based on distributions from the fund received thorough June 30, 2009, a loss of $8.2 million was recorded in the Statement of Revenues, Expenses, and Changes in Net Assets.

14. CONTINGENCIES

Litigation

As a result of the normal course of operations, the Authority currently is involved in certain litigation and arbitration. This litigation involves former employee complaints, union matters, tenant matters and subcontractor claims. Management and legal counsel believe the outcome of any current litigation will not have a materially adverse impact on the financial position of the Authority.

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in the State of New Mexico self-insurance program (Risk Management Program). Under this program, the Authority pays an annual premium to the State for the following types of insurance coverage:

- Workers Compensation insurance
- General Liability insurance
- Civil Rights
- Blanket Property insurance
- Boiler and Machinery insurance
- Auto physical Damage insurance
- Crime insurance

The Authority also carries a commercial insurance policy to cover losses to which it may be exposed as it related to the office lease property.

During the year, there were no significant reductions in commercial insurance coverage. For the past five years, no insurance settlements exceeded commercial insurance coverage.

15. RELATED PARTY

The Authority has issued bonds or purchased securities for several other state entities to finance the construction of certain capital projects. Representatives of two of these entities (the Secretary of the Department of Finance and Administration and the Secretary of the Department of Energy, Minerals and Natural Resources) are members of the Authority's board of directors. To date, these transactions have totaled $171,058,619.

16. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT OF 2008 FINANCIAL STATEMENTS

Prior to the fiscal year ended June 30, 2009, the Authority classified its various programs as either governmental or enterprise funds. During fiscal 2009, management determined that none of the funds previously classified as governmental were consistent with the GASB 34 definition of governmental funds, but were, in fact, enterprise funds. The primary factors considered in reaching this judgment were:

- None of the funds account for any tax revenues, as the Authority has no taxing authority. Governmental funds are used to account for tax supported (governmental) activities.
- All of the Authority's funds charge fees to other parties for services rendered by the respective programs, the primary distinguishing characteristic of "enterprise" funds.
- The "Funds" are actually various projects and as such can be treated under one fund.

Based on this determination, the accompanying financial statements, including the previously issued fiscal 2008 statements, have been prepared to reflect all of the Authority's programs as an enterprise fund. The current year presentation is comparable to the entity-wide financial statements as originally issued as of and for the year ended June 30, 2008.

In revising the financial statements, certain errors were noted that have also been corrected in this restatement. The table below reflects the corrections made and the basis for the presentation in the 2009 financial statements:

	Increase (Decrease) Net Assets
Disposition of refunding escrow balances related to defeased bonds reported as assets in error	$ (82,337,416)
Intergovernmental receivables not previously recorded	168,165,000
Defeased bonds payable and related accrued interest recorded as liabilities in error	84,345,119
Write-off of unamortized deferred issuance costs related to defeased bonds	(1,264,976)
Increase as of July 1, 2007	168,907,727
FY 2008 revenues originally reported as appropriation revenue restated as reductions to intergovernmental receivables	(6,560,000)
FY 2008 other revenues and expenses removed to reflect defeased bonds payable	25,975
Net change at June 30, 2008	$ 162,373,702

17. SUBSEQUENT EVENTS

The following is summary of loans and bonds that have closed since the Statement of Net Assets date as of June 30, 2009:

- Closed 65 loans totaling $176,841,281 in the Public Project Revolving Fund program.
- Issued three Public Project Revolving Fund Revenue Bonds totaling $143,380,000.
- Closed on two loans for the Drinking Water State Revolving Fund totaling $1,151,400.
- Closed 18 additional loans for Drinking Water State Revolving Fund under the American Reinvestment and Recovery Act of 2009 totaling $16,949,682.
- Closed 14 loan/grant projects totaling $16,661,012 out of the Water Projects Fund.
- Closed one loan for the Smart Money loan participation program totaling $1,650,000.
- Closed one loan for $100,000 for the Behavioral Health Capital Fund program.

18. NEW ACCOUNTING PRONOUNCEMENTS

The Authority is in the process of assessing the impact on its financial position or results of operations of implementing GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 54., *Fund Balance Reporting and Governmental Fund Type Definitions*. Both statements will be effective for the Authority in fiscal year 2010. GASB No. 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

SUPPLEMENTARY SCHEDULES

Combining Statement of Net Assets
June 30, 2009

	PPRF	GRIP	BEH Health	Child Care	Cigarette Tax 2006
ASSETS:					
Cash and equivalents:					
Unrestricted	$ 99,584,577	$ 2,300,631	$ 219,668	$ -	$ -
Restricted	252,786,822	-	11,523	242,515	2,462,882
Receivables:					
Tax revenue	2,080,571	-	-	-	-
Interest	8,022,761	-	1,547	125	943
Grant and other	2,622,545	1,340,862	-	-	-
Due from other funds	3,127,582	(137,456)	(16,961)	(104,553)	-
Administrative fees receivable	258,299	120,078	-	-	-
Loans receivable, net of allowance	1,050,541,321	-	337,455	36,466	471,509
Intergovernmental receivables	127,848,087	-	-	-	-
Restricted asset - escrow	659,798	-	-	-	-
Capital assets, net of depreciation	118,026	23,457	1,024	821	-
Deferred cost, net of accumulated amortization	10,155,420	-	-	-	-
Other assets	59,029	-	-	-	-
TOTAL ASSETS	$ 1,557,864,838	$ 3,647,572	$ 554,256	$ 175,374	$ 2,935,334
LIABILITIES:					
Current Liabilities:					
Accounts payable and accrued liabilities	$ 915,747	$ -	$ -	$ -	$ -
Accrued payroll	129,232	15,735	447	130	-
Compensated absences	226,830	-	-	-	-
Undisbursed loan proceeds	181,136,484	-	796	250,000	-
Accrued interest	3,406,392	-	-	-	19,515
Due to other state agencies	-	-	-	-	-
Due to other funds	-	-	-	-	-
Debt service payable	65,813,605	-	10,727	-	-
Bonds payable, current, net	54,343,000	-	-	-	125,000
	305,971,290	15,735	11,970	250,130	144,515
Noncurrent liabilities:					
Bonds payable, noncurrent, net of bond discount/premium	1,047,860,109	-	-	-	2,000,000
TOTAL LIABILITIES	1,353,831,399	15,735	11,970	250,130	2,144,515
NET ASSETS:					
Invested in capital assets	118,026	23,457	1,024	821	-
Restricted for:					
Debt service	-	-	-	-	-
Program funds	105,344,348	-	322,041	(75,577)	790,819
Unrestricted	98,571,065	3,608,380	219,221	-	-
TOTAL NET ASSETS	204,033,439	3,631,837	542,286	(74,756)	790,819
TOTAL LIABILITIES AND NET ASSETS	$ 1,557,864,838	$ 3,647,572	$ 554,256	$ 175,374	$ 2,935,334

DWRLF	Primary Care	Local Road Program	New Markets Tax Credit	Energy Efficiency	UNM Health Sciences Program	Workers Comp Financing Program
$ 9,414,793	$ -	$ -	$ 73,381	$ -	$ -	$ -
7,548,256	2,641,875	3,862,059	-	-	1,221,012	1,166,685
-	-	-	-	-	-	-
203,320	-	-	-	-	-	-
1,087,706	-	-	1,550	-	857,811	-
(28,705)	(206,914)	(1,828)	(1,022,684)	(31,770)	-	-
25,499	-	-	-	-	-	-
51,848,151	6,094,411	-	-	-	-	-
-	-	-	-	-	19,855,000	2,315,000
-	-	-	-	-	-	-
3,592	595	681	1,200	478	-	-
-	-	-	-	-	704,745	67,037
-	-	-	-	-	-	-
$ 70,102,612	$ 8,529,967	$ 3,860,912	$ (946,553)	$ (31,292)	$ 22,638,568	$ 3,548,722
$ 485,812	$ -	$ -	$ 75,000	$ -	$ -	$ -
6,064	1,208	307	5,124	48	-	-
-	-	-	-	-	-	-
581,974	951,681	-	-	-	-	-
1	-	-	-	-	285,940	42,758
800,000	-	-	-	-	-	-
-	-	-	-	-	-	-
245,131	-	-	-	-	1	1
-	-	-	-	-	2,450,000	235,000
2,118,982	952,889	307	80,124	48	2,735,941	277,759
-	-	-	-	-	18,737,039	2,080,000
2,118,982	952,889	307	80,124	48	21,472,980	2,357,759
3,591	596	681	1,200	478	-	-
-	-	-	-	-	1,165,588	1,190,963
59,031,622	7,576,482	3,859,924	-	(31,818)	-	-
8,948,417	-	-	(1,027,877)	-	-	-
67,983,630	7,577,078	3,860,605	(1,026,677)	(31,340)	1,165,588	1,190,963
$ 70,102,612	$ 8,529,967	$ 3,860,912	$ (946,553)	$ (31,292)	$ 22,638,568	$ 3,548,722

Combining Statement of Net Assets
June 30, 2009

	State Capital Imprv Financing	State Office Bldg Bonding Program	Equipment Loan Program	Water and Wastewater Grant Program	Water Projects Program
ASSETS:					
Cash and equivalents:					
Unrestricted	$ -	$ -	$ -	$ -	$ -
Restricted	391,973	6,358,401	1,862	4,969,877	9,791,262
Receivables:					
Tax revenue	-	-	-	-	-
Interest	-	-	5,307	-	-
Grant and other	-	-	-	-	-
Due from other funds	-	-	-	(15,777)	(204,234)
Administrative fees receivable	-	-	-	-	1,369
Loans receivable, net of allowance	-	-	349,000	-	2,270,908
Intergovernmental receivables	4,775,000	-	-	-	-
Restricted asset - escrow	-	-	-	-	-
Capital assets, net of depreciation	-	-	-	9,136	13,532
Deferred cost, net of accumulated amortization	33,147	-	-	-	-
Other assets	-	-	-	-	-
TOTAL ASSETS	$ 5,200,120	$ 6,358,401	$ 356,169	$ 4,963,236	$ 11,872,837
LIABILITIES:					
Current Liabilities:					
Accounts payable and accrued liabilities	$ 80,262	$ -	$ -	$ -	$ -
Accrued payroll	-	-	-	1,689	4,509
Compensated absences	-	-	-	-	-
Undisbursed loan proceeds	-	-	-	-	-
Accrued interest	97,490	-	5,307	-	-
Due to other state agencies	-	-	-	-	-
Due to other funds	-	-	-	-	-
Debt service payable	-	-	1,862	-	-
Bonds payable, current, net	660,000	-	65,000	-	-
	837,752	-	72,169	1,689	4,509
Noncurrent liabilities:					
Bonds payable, noncurrent, net of bond discount/premium	4,115,000	-	284,000	-	-
TOTAL LIABILITIES	4,952,752	-	356,169	1,689	4,509
NET ASSETS:					
Invested in capital assets	-	-	-	9,136	13,532
Restricted for:					
Debt service	247,368	6,358,401	-	-	-
Program funds	-	-	-	4,952,411	11,854,796
Unrestricted	-	-	-	-	-
TOTAL NET ASSETS	247,368	6,358,401	-	4,961,547	11,868,328
TOTAL LIABILITIES AND NET ASSETS	$ 5,200,120	$ 6,358,401	$ 356,169	$ 4,963,236	$ 11,872,837

Emergency Drought Water Program	Local Government Planning Program	Economic Development Program	Local Government Transportation Program	Bio-Mass Diary Program	Total
$ 284,819	$ -	$ -	$ -	$ -	$ 111,877,869
-	457,823	10,327,943	67,624,401	2,031,009	373,898,180
-	-	-	-	-	-
-	-	-	-	-	2,080,571
-	-	14,798	-	-	8,248,801
-	-	-	-	-	5,910,474
-	(12,232)	(1,242,893)	(101,575)	-	-
-	-	-	-	-	405,245
-	-	1,659,429	-	-	1,113,608,650
-	-	-	-	-	154,793,087
-	-	-	-	-	659,798
2,912	7,175	15,199	-	-	197,828
-	-	-	-	-	10,960,349
-	-	-	-	-	59,029
$ 287,731	$ 452,766	$ 10,774,476	$ 67,522,826	$ 2,031,009	$ 1,782,699,881
$ -	$ -	$ -	$ -	$ -	$ 1,556,821
-	1,259	2,974	1,270	-	169,996
-	-	-	-	-	226,830
-	-	-	-	-	182,920,935
-	-	-	-	-	3,857,403
-	-	-	-	-	800,000
-	-	-	-	-	-
-	-	-	-	-	66,071,327
-	-	-	-	-	57,878,000
-	1,259	2,974	1,270	-	313,481,312
-	-	-	-	-	1,075,076,148
-	1,259	2,974	1,270	-	1,388,557,460
2,912	7,175	15,199	-	-	197,828
-	-	(1)	-	-	8,962,319
	444,332	10,756,304	67,521,556	2,031,009	274,378,249
284,819	-	-	-	-	110,604,025
287,731	451,507	10,771,502	67,521,556	2,031,009	394,142,421
$ 287,731	$ 452,766	$ 10,774,476	$ 67,522,826	$ 2,031,009	$ 1,782,699,881

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2009

	PPRF	GRIP	BEH Health	Child Care
OPERATING REVENUES:				
Appropriation revenue	$ 25,645,568	$ -	$ -	$ -
Federal grant revenue	-	-	-	-
Administrative fees	4,689,716	1,442,590	770	-
Interest on loans	45,103,592	-	10,019	375
Interest on investments	1,118,311	24,239	(722)	3,672
Total operating revenues	76,557,187	1,466,829	10,067	4,047
OPERATING EXPENDITURES:				
Grant expense	11,226	-	-	-
Bond issuance costs	1,190,439	-	-	-
Administrative fee	63,894	-	-	-
Professional services	2,020,995	490,881	19,555	3,792
Salaries and fringe benefits	2,215,043	495,021	32,694	13,018
In-state travel	66,099	26,368	1,012	719
Out-of-state travel	31,774	3,115	528	21
Operating costs	593,110	121,921	6,492	4,219
Provision for loan losses	299,113	-	-	-
Debt service - interest expense	47,652,598	-	-	-
Total operating expenses	54,144,291	1,137,306	60,281	21,769
Operating income before depreciation	22,412,896	329,523	(50,214)	(17,722)
Depreciation	103,183	30,172	1,317	968
Total operating income (loss)	22,309,713	299,351	(51,531)	(18,690)
NON-OPERATING REVENUES (EXPENSES):				
Loss on investements	(3,729,142)	(36,861)	(3,828)	-
TOTAL NON-INTEREST EARNINGS (EXPENSES) BEFORE TRANSFERS	18,580,571	262,490	(55,359)	(18,690)
TRANSFERS:				
Transfers in (out)	(2,550,520)	-	48,268	-
Transfers from (to) other state agencies	(3,177,927)	-	-	-
TOTAL TRANSFERS	(5,728,447)	-	48,268	-
CHANGE IN NET ASSETS	12,852,124	262,490	(7,091)	(18,690)
TOTAL NET ASSETS, BEGINNING OF YEAR (as restated)	191,181,315	3,369,347	549,377	(56,066)
TOTAL NET ASSETS, END OF YEAR	$ 204,033,439	$ 3,631,837	$ 542,286	$ (74,756)

Cigarette Tax 2006	DWRLF	Primary Care	Local Road Program	New Markets Tax Credit	Energy Efficiency	UNM Health Sciences Program	Workers Comp Financing Program
$ -	$ -	$ -	$ -	$ -	$ -	$ 2,721,738	$ 1,126,741
-	20,412,275	-	-	-	-	-	-
-	88,581	-	1,442,909	-	-	-	-
5,711	650,513	-	-	-	-	1,144,131	134,181
34,905	246,215	152,393	43,156	324	-	8,812	14,597
40,616	21,397,584	152,393	1,486,065	324	-	3,874,681	1,275,519
-	-	-	969,543	-	-	-	-
-	-	-	-	-	-	398,645	9,354
-	-	-	-	-	-	104,536	-
2,652	70,402	146,249	234	252,969	13,826	22,321	640
-	218,274	65,343	4,766	268,246	2,716	-	-
-	1,909	638	1,239	7,430	12	-	-
-	7,786	205	233	7,460	56	-	-
-	24,439	14,752	1,534	60,740	728	-	-
-	-	-	-	-	-	-	-
122,827	-	-	-	-	-	1,129,377	130,244
125,479	322,810	227,187	977,549	596,845	17,338	1,654,879	140,238
(84,863)	21,074,774	(74,794)	508,516	(596,521)	(17,338)	2,219,802	1,135,281
-	8,205	743	827	1,494	624	-	-
(84,863)	21,066,569	(75,537)	507,689	(598,015)	(17,962)	2,219,802	1,135,281
-	(330,828)	(1,540)	(61,976)	(1,944)	-	(1,161)	(36,091)
(84,863)	20,735,741	(77,077)	445,713	(599,959)	(17,962)	2,218,641	1,099,190
200,707	-	-	-	-	-	460,179	-
-	(3,012,041)	-	-	-	-	(2,500,567)	(1,064,801)
200,707	(3,012,041)	-	-	-	-	(2,040,388)	(1,064,801)
115,844	17,723,700	(77,077)	445,713	(599,959)	(17,962)	178,253	34,389
674,975	50,259,930	7,654,155	3,414,892	(426,718)	(13,378)	987,335	1,156,574
$ 790,819	$ 67,983,630	$ 7,577,078	$ 3,860,605	$ (1,026,677)	$ (31,340)	$ 1,165,588	$ 1,190,963

Combining Statement of Revenues, Expenditures, and Changes in Net Assets
Year Ended June 30, 2009

	State Capital Imprv Financing	State Office Bldg Bonding Program	Equipment Loan Program	Water and Wastewater Grant Program
OPERATING REVENUES:				
Appropriation revenue	$ 14,531	$ -	$ -	$ -
Federal grant revenue	-	-	-	(3,388,630)
Administrative fees	-	-	-	-
Interest on loans	366,450	-	23,426	-
Interest on investments	5,097	106,021	-	120,989
Total operating revenues	386,078	106,021	23,426	(3,267,641)
OPERATING EXPENDITURES:				
Grant expense	-	-	-	3,210,290
Bond issuance costs	5,807	-	-	-
Administrative fee	13,088	60,348	-	-
Professional services	-	-	-	73,370
Salaries and fringe benefits	-	-	-	54,966
In-state travel	-	-	-	193
Out-of-state travel	-	-	-	124
Operating costs	-	-	-	11,522
Provision for loan losses	-	-	-	-
Debt service - interest expense	353,994	-	29,090	-
Total operating expenses	372,889	60,348	29,090	3,350,465
Operating income before depreciation	13,189	45,673	(5,664)	(6,618,106)
Depreciation	-	-	-	12,744
Total operating income(loss)	13,189	45,673	(5,664)	(6,630,850)
NON-OPERATING REVENUES (EXPENSES):				
Loss on investements	(14,712)	(227,905)	-	(65,332)
TOTAL NON-INTEREST EARNINGS (EXPENSES) BEFORE TRANSFERS	(1,523)	(182,232)	(5,664)	(6,696,182)
TRANSFERS:				
Transfers in (out)	-	1,949,866	-	(108,500)
Transfers from (to) other state agencies	-	(2,931,862)	-	-
TOTAL TRANSFERS	-	(981,996)	-	(108,500)
CHANGE IN NET ASSETS	(1,523)	(1,164,228)	(5,664)	(6,804,682)
TOTAL NET ASSETS, BEGINNING OF YEAR	248,891	7,522,629	5,664	11,766,229
TOTAL NET ASSETS, END OF YEAR	$ 247,368	$ 6,358,401	$ -	$ 4,961,547

Water Projects Program	Emergency Drought Water Program	Local Government Planning Program	Economic Development Program	Local Government Transportation Program	Bio-Mass Diary Program	Total
$ 4,000,000	$ -	$ -	$ -	$ 18,871,153	$ -	$ 52,379,731
19,470,536	-	-	-	-	-	36,494,181
5,872	-	-	-	-	-	7,670,438
	-	-	151,836	-		47,590,234
(20,234)	3,978	10,236	142,944	847,828	27,830	2,890,591
23,456,174	3,978	10,236	294,780	19,718,981	27,830	147,025,175
20,498,040	-	268,420	-	34,827,693	-	$ 59,785,212
-	-	-	-		-	1,604,245
-	-	-	-		-	241,866
459,211	-	41,291	14,161	10,392	-	3,642,941
264,309	-	42,569	152,478	31,062	-	3,860,505
6,424	-	126	6,568	213	-	118,950
2,067	-	482	3,323	786	-	57,960
58,650	-	8,877	44,873	6,160	-	958,017
-	-	-	320,000	-	-	619,113
-	-	-	-	-	-	49,418,130
21,288,701	-	361,765	541,403	34,876,306	-	120,306,939
2,167,473	3,978	(351,529)	(246,623)	(15,157,325)	27,830	26,718,236
17,939	4,210	10,318	20,169	-	-	212,913
2,149,534	(232)	(361,847)	(266,792)	(15,157,325)	27,830	26,505,323
(132,156)	(5,510)	(17,044)	(200,663)	(3,338,656)	(81)	(8,205,430)
2,017,378	(5,742)	(378,891)	(467,455)	(18,495,981)	27,749	18,299,893
-	-	-	-	-	-	-
-	-	-	-	-	-	(12,687,198)
-	-	-	-	-	-	(12,687,198)
2,017,378	(5,742)	(378,891)	(467,455)	(18,495,981)	27,749	5,612,695
9,850,950	293,473	830,398	11,238,957	86,017,537	2,003,260	388,529,726
$ 11,868,328	$ 287,731	$ 451,507	$ 10,771,502	$ 67,521,556	$ 2,031,009	$ 394,142,421

Combining Statement of Cash Flows
Year Ended June 30, 2009

	PPRF	GRIP	BEH Health	Child Care
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash paid for employee services	$ (2,130,317)	$ (495,021)	$ (32,694)	$ (13,018)
Cash paid to vendors for services	(1,790,011)	(651,678)	(28,888)	(8,751)
Bond issuance costs	(330,251)	-	-	-
Interest expense paid	(49,366,990)	-	-	-
Grants awarded	(11,227)	-	-	-
Appropriation revenue	28,045,404	-	-	-
Cash received from federal government for revolving loans	-	-	-	-
Interest income received	46,435,522	(12,623)	5,617	3,922
Administrative fees received	5,006,200	1,442,919	924	-
Transfers from other funds	5,928,557	55,210	13,314	21,769
Net cash provided by (used in) operating activities	31,786,887	338,807	(41,727)	3,922
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating transfers, net	(2,550,519)	-	48,268	-
Cash paid to subrecipients for services	(3,177,927)	-	-	-
Cash provided (used) by funds held for others	(14,995,597)	-	4	-
Net cash provided by (used in) non-capital financing activities	(20,724,043)	-	48,272	-
CASH FLOWS FROM CAPITAL AND RELATED				
Effects of operating assets and liabilities:				
Investment in Partnership	-	-	-	-
Loans funded	(130,091,340)	-	-	(36,466)
Loan payments received	74,346,485	-	32,237	-
Bonds issued	115,463,895	-	-	-
Payment of bonds	(53,708,000)	-	-	-
Debt service	(3,746,868)	-	3,510	-
Capital asset purchases	(32,758)	-	-	-
Net cash provided by (used in) capital and related financing activities	2,231,414	-	35,747	(36,466)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,294,258	338,807	42,292	(32,544)
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	339,077,144	1,961,825	188,899	275,058
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 352,371,402	$ 2,300,632	$ 231,191	$ 242,514
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Change in net assets	$ 12,852,124	$ 262,490	$ (7,091)	$ (18,690)
Adjustments to change in net assets:				
Depreciation and amortization	103,184	30,172	1,317	968
Net transfers	5,728,446	-	(48,268)	-
Prepaids and receivables	5,791,698	330	302	(125)
Payables and other accrued liabilities	7,311,435	45,815	12,013	21,769
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 31,786,887	$ 338,807	$ (41,727)	$ 3,922

Cigarette Tax 2006	DWRLF	Primary Care	Local Road Program	New Markets Tax Credit	Energy Efficiency	UNM Health Sciences Program	Workers Comp Financing Program
$ -	$ (218,273)	$ (65,343)	$ (4,766)	$ (268,246)	$ (2,716)	$ -	$ -
(2,652)	(401,847)	(166,259)	(3,241)	(264,935)	(14,622)	(126,859)	(641)
-	173,452	-	-	-	-	-	-
(123,975)	-	-	-	-	-	(1,238,359)	(134,180)
-	-	-	(969,543)	-	-	-	-
-	3,460	-	-	-	-	2,103,456	1,126,741
-	21,221,852	-	-	-	-	-	-
39,674	472,122	176,818	(18,819)	(1,619)	-	1,151,783	112,687
-	76,394	-	1,442,909	-	-	-	-
-	-	88,607	(11)	609,731	17,338	-	-
(86,953)	21,327,160	33,823	446,529	74,931	-	1,890,021	1,104,607
200,707	-	-	-	-	-	460,179	-
-	(3,012,041)	-	-	-	-	(2,500,567)	(1,064,801)
-	466,238	(271,409)	-	-	-	-	-
200,707	(2,545,803)	(271,409)	-	-	-	(2,040,388)	(1,064,801)
-	-	-	-	(1,550)	-	-	-
(471,509)	(22,139,294)	-	-	-	-	-	-
-	1,198,908	1,082,260	-	-	-	11,065,000	225,000
-	-	-	-	-	-	-	-
(125,000)	-	-	-	-	-	(11,065,000)	(225,000)
-	(5,615)	(344,498)	-	-	-	-	-
-	-	-	-	-	-	-	-
(596,509)	(20,946,001)	737,762	-	(1,550)	-	-	-
(482,755)	(2,164,644)	500,176	446,529	73,381	-	(150,367)	39,806
2,945,638	19,127,693	2,141,699	3,415,530	-	-	1,371,379	1,126,879
$ 2,462,883	$ 16,963,049	$ 2,641,875	$ 3,862,059	$ 73,381	$ -	$ 1,221,012	$ 1,166,685
$ 115,845	$ 17,723,700	$ (77,076)	$ 445,713	$ (599,958)	$ (17,963)	$ 178,254	$ 34,389
-	8,206	743	827	1,494	624	262,025	-
(200,707)	3,012,041	-	-	-	-	2,040,388	1,064,801
(943)	707,072	25,966	-	-	-	(618,282)	9,354
(1,148)	(123,859)	84,190	(11)	673,395	17,339	27,637	(3,938)
$ (86,953)	$ 21,327,160	$ 33,823	$ 446,529	$ 74,931	$ -	$ 1,890,022	$ 1,104,606

Combining Statement of Cash Flows
Year Ended June 30, 2009

	State Capital Imprv Financing	State Office Bldg Bonding Program	Equipment Loan Program	Water and Wastewater Grant Program
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash paid for employee services	$ -	$ -	$ -	$ (54,966)
Cash paid to vendors for services	(13,087)	-	-	(110,649)
Bond issuance costs	-	-	-	-
Interest expense paid	(366,451)	-	(24,358)	-
Grants awarded	-	-	-	(3,210,291)
Appropriation revenue	14,531	530,000	-	(3,388,630)
Cash received from federal government for revolving loans	-	-	-	-
Interest income received	356,836	(121,884)	24,358	55,656
Administrative fees received	-	(60,347)	-	-
Transfers from other funds	-	-	-	9,070
Net cash provided by (used in) operating activities	(8,171)	347,769	-	(6,699,810)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating transfers, net	-	1,949,865	-	(108,500)
Cash paid to subrecipients for services	-	(2,931,862)	-	-
Cash provided (used) by funds held for others	-	-	-	-
Net cash provided by (used in) non-capital financing activities	-	(981,997)	-	(108,500)
CASH FLOWS FROM CAPITAL AND RELATED				
Effects of operating assets and liabilities:				
Investment in Partnership	-	-	-	-
Loans funded	-	-	-	-
Loan payments received	610,000	-	62,000	-
Bonds issued	-	-	-	-
Payment of bonds	(610,000)	-	(62,000)	-
Debt service	-	-	(1,522)	-
Capital asset purchases	-	-	-	-
Net cash provided by (used in) capital and related financing activities	-	-	(1,522)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,171)	(634,228)	(1,522)	(6,808,310)
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	400,144	6,992,629	3,383	11,778,187
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 391,973	$ 6,358,401	$ 1,861	$ 4,969,877
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Change in net assets	$ (1,523)	$ (1,164,228)	$ (5,664)	$ (6,804,683)
Adjustments to change in net assets:				
Depreciation and amortization	-	-	-	12,744
Net transfers	-	981,997	-	108,500
Prepaids and receivables	5,807	529,999	932	-
Payables and other accrued liabilities	(12,455)	-	4,732	(16,370)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (8,171)	$ 347,768	$ -	$ (6,699,809)

Water Projects Program	Emergency Drought Water Program	Local Government Planning Program	Economic Development Program	Local Government Transportation Program	Bio-Mass Diary Program	Total
$ (264,308)	$ -	$ (42,569)	$ (152,478)	$ (31,062)	$ -	$ (3,775,777)
(543,438)	-	(58,070)	(77,169)	(17,553)	-	(4,280,350)
-	-	-	-	-	-	(156,799)
-	-	-	-	-	-	(51,254,313)
(20,498,040)	-	(268,420)	-	(34,827,691)	-	(59,785,212)
23,470,536	-	-	-	18,871,152	-	70,776,650
-	-	-	-	-	-	21,221,852
(152,390)	(1,533)	(6,808)	91,291	(2,490,830)	27,749	46,147,529
4,573	-	-	-	-	-	7,913,572
176,127	-	3,114	229,647	48,614	-	7,201,087
2,193,060	(1,533)	(372,753)	91,291	(18,447,370)	27,749	34,008,239
-	-	-	-	-	-	-
-	-	-	-	-	-	(12,687,198)
-	-	-	-	-	-	(14,800,764)
-	-	-	-	-	-	(27,487,962)
-	-	-	-	-	-	(1,550)
(2,230,911)	-	-	(222,447)	-	-	(155,191,967)
276,653	-	-	68,272	-	-	88,966,815
-	-	-	-	-	-	115,463,895
-	-	-	-	-	-	(65,795,000)
(5,294)	-	-	-	-	-	(4,100,287)
-	-	-	-	-	-	(32,758)
(1,959,552)	-	-	(154,175)	-	-	(20,690,852)
233,508	(1,533)	(372,753)	(62,884)	(18,447,370)	27,749	(14,170,575)
9,557,753	286,351	830,576	10,390,827	86,071,770	2,003,260	499,946,624
$ 9,791,261	$ 284,818	$ 457,823	$ 10,327,943	$ 67,624,400	$ 2,031,009	$ 485,776,049
$ 2,017,378	$ (5,743)	$ (378,891)	$ (467,456)	$ (18,495,981)	$ 27,749	$ 5,612,695
17,939	4,210	10,318	340,169	-	-	794,940
-	-	-	-	-	-	12,687,198
(1,299)	-	-	(2,827)	-	-	6,447,984
159,042	-	(4,180)	221,405	48,611	-	8,465,422
$ 2,193,060	$ (1,533)	$ (372,753)	$ 91,291	$ (18,447,370)	$ 27,749	$ 34,008,239

SINGLE AUDIT

	Federal Catalog Number	Federal Expenditures FY 2009
Environmental Protection Agency		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 20,412,275

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Authority.

1. BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Authority's basic financial statements.

2. RECONCILIATION TO FINANCIAL STATEMENTS (PAGE 47) – NEW MEXICO DRINKING WATER REVOLVING LOAN PROGRAM

Transfers to other State agencies	$ 3,012,041
Total non-interest expense	279,504
Total EPA expenditures per Statement of Revenues, Expenditures and Changes in Fund Net Assets	3,291,545
Total loans issued from Federal Draws included in loans receivable on Statement of Net Assets	16,859,666
Reimbursement for prior year transfers to other State agencies	261,064
Total EPA expenditures	$20,412,275

The Authority administers loans under the EPA Program (Federal Catalog Number 66.468). The outstanding balances on the loans at June 30, 2009 are $51,848,157. Only the value of new loans expended during the fiscal year are included in the accompanying schedule.

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

Governing Board
New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the basic financial statements of New Mexico Finance Authority (the Authority) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2009-1 to be a material weakness.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, the Governing Board, the New Mexico State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
March 25, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Governing Board
New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of New Mexico Finance Authority (the Authority) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Governing Board, the New Mexico State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
March 25, 2010

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes ___ No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes ___ None reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? ___ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___ Yes X No

Identification of Major Programs

Name of Federal Program	CFDA Number	Expenditures
Capitalization Grant for Drinking Water State Revolving Funds	66.468	$ 20,412,275

Dollar threshold used to distinguish between type A and type B programs: $ 612,368

Auditee qualified as low-risk auditee? X Yes ___ No

II. FINANCIAL STATEMENT FINDINGS

Finding 2009-01 – Material Adjustments

Condition

During the course of our audit, management discovered several misstatements that had a material effect on the Authority's financial statements and resulted in restatement of prior period net assets. Several adjustments were required to properly record various transactions as follows:

- Disposition of refunding escrow balances related to defeased bonds reported as assets in error. This resulted in a prior period adjustment of ($82,377,416).
- Intergovernmental receivables not previously recorded. This resulted in a prior period adjustment of $168,165,000.
- Defeased bonds payable and related accrued interest recorded as liabilities in error. This resulted in a prior period adjustment of $84,345,199.
- Write-off of unamortized deferred issuance costs related to defeased bonds. This resulted in a prior period adjustment of ($1,264,976).
- Revenues originally reported as appropriation revenue restated as reductions to intergovernmental receivables. This resulted in a prior period adjustment of ($6,560,000).
- Other revenues and expenses removed to reflect to reflect defeased bonds payable. This resulted in a prior period adjustment of $25,975.

The effect of the above adjustments is a net change in the net assets balance of $162,373,702.

Criteria

Generally accepted accounting principles (GAAP) specify how to account for transactions relating to bonds payable, defeased bonds, loans receivable, intergovernmental receivables, appropriations revenue, other revenues and expenses. These standards were not applied when the transactions occurred.

Cause

Incorrect identification and application of applicable accounting standards relating to bonds payable, defeased bonds, loans receivable, intergovernmental receivables, appropriations revenue, other revenues and expenses for transactions that occurred in prior periods.

Effect

Material misstatements of prior period account balances relating to bonds payable, defeased bonds, loans receivable, intergovernmental receivables, appropriations revenue, other revenues and expenses.

Recommendation

We recommend that management enhance its processes for reviewing, monitoring and accounting for all transactions. In addition, management should establish procedures to ensure the identification and application of correct accounting standards for recording and reporting.

Management's Response

The Authority's management agrees with this finding. Management had implemented what it believed and continues to believe were adequate procedures for review of transactions and accounting standards during the course of the audit. These procedures, in fact, resulted in the detection of the misstatements.

Finding 2009-2 – Reporting Deadline

Condition
The Authority did not meet the reporting deadline based on the Office of the State Auditor of New Mexico's Audit Rule.

Criteria
The Office of the State Auditor of New Mexico's Audit Rule 2.2.2.9 A.(1)(f) sets a reporting deadline with which the Authority must comply.

This rule states that the Authority's annual financial audit report is due no later than 60 days after the State Auditor was provided with notice that the Authority's books and records were ready and available for audit.

Cause
Delays in the completion of the audit were a result of change in presentation and prior period adjustments. Although an extension was required, the extended deadline was not met.

Effect
Noncompliance with the Office of the State Auditor of New Mexico's Audit Rule 2.2.2.9 A.(1)(f).

Recommendation
We recommend that the Authority implement procedures to ensure that future reports meet the Office of the State Auditor of New Mexico Audit Rule reporting deadline.

Management's Response
The Authority's management agrees with this finding. We understand the importance of the rule and intend to comply in the future.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings required to be reported under findings related to federal awards for the year ended June 30, 2009.

Finding No. 2008-01 – Missing Documentation

Condition
Of 25 payroll and personnel transactions tested, we noted that one employee file did not contain I-9 documentation.

Status
This finding was corrected in the current year.

An exit conference was held with the Authority on February 22, 2010. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

Stephen R. Flance, Chairman, NMFA Board
Katherine Miller, Board Member, Chair of Audit Committee
William F. Fulginiti, Vice Chairman
Lonnie Marquez, Board Member
Dan Silva, Board Member
William C. Sisneros, Chief Executive Officer
Jerome Trojan, Chief Operating Officer
John Duff, Chief Financial Officer
Greg Campbell, Controller
Rick Martinez
J. Michael Stephens, Clifton Gunderson LLP

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Independent Auditor, with the assistance and review of the Authority.