

<b>NEW MEXICO</b>
<b>FINANCE AUTHORITY</b>
<b>Financial Statements</b>
<b>for the Year Ended</b>
<b>June 30, 2007,</b>
<b>and Independent</b>
<b>Auditors' Report</b>

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**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





MEYNER'S
COMPANY, L.L.C.
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.

  
September 19, 2007

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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.

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**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.

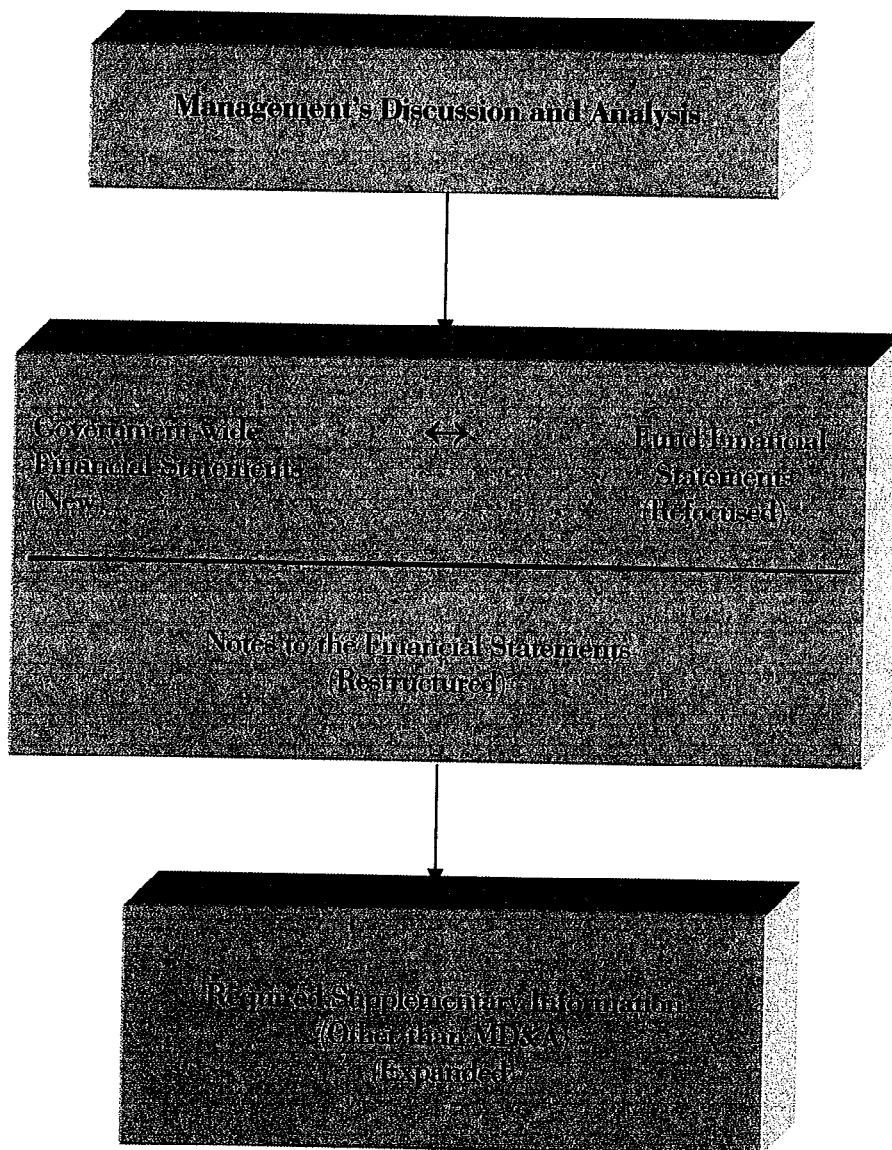


**Using This Annual Report**

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





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**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.

CASB #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 CASB #34.

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***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.



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***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	\$	<b>45,024,418</b>	53,624,471	<b>84,608,587</b>	32,697,069	<b>129,633,005</b>	86,321,540
Capital and non-current assets		<u><b>2,396,886</b></u>	<u>3,608,898</u>	<u><b>955,034,773</b></u>	<u>862,702,716</u>	<u><b>957,431,659</b></u>	<u>866,311,614</u>
Total assets	\$	<u><b>47,421,304</b></u>	<u>57,233,369</u>	<u><b>1,039,643,360</b></u>	<u>895,399,785</u>	<u><b>1,087,064,664</b></u>	<u>952,633,154</u>
Current liabilities	\$	<b>8,187,482</b>	11,947,088	<b>154,767,837</b>	143,670,717	<b>162,955,319</b>	155,617,805
Long-term liabilities		<u><b>114,311,923</b></u>	<u>118,756,977</u>	<u><b>691,720,673</b></u>	<u>571,846,958</u>	<u><b>806,032,596</b></u>	<u>690,603,935</u>
Total liabilities		<b>122,499,405</b>	130,704,065	<b>846,488,510</b>	715,517,675	<b>968,987,915</b>	846,221,740
Net Assets:							
Invested in capital assets		<b>145,503</b>	232,249	<b>292,268</b>	360,882	<b>437,771</b>	593,131
Restricted		<u><b>(75,223,604)</b></u>	<u>(73,702,945)</u>	<u><b>187,200,507</b></u>	<u>176,161,533</u>	<u><b>111,976,903</b></u>	<u>102,458,588</u>
Unrestricted		<u>-</u>	<u>-</u>	<u><b>5,662,075</b></u>	<u>3,359,695</u>	<u><b>5,662,075</b></u>	<u>3,359,695</u>
Total net assets		<u><b>(75,078,101)</b></u>	<u>(73,470,696)</u>	<u><b>193,154,850</b></u>	<u>179,882,110</u>	<u><b>118,076,749</b></u>	<u>106,411,414</u>
Total liabilities and net assets	\$	<u><b>47,421,304</b></u>	<u>57,233,369</u>	<u><b>1,039,643,360</b></u>	<u>895,399,785</u>	<u><b>1,087,064,664</b></u>	<u>952,633,154</u>

**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	<u>23,207,646</u>	<u>21,676,344</u>	<u>42,680,497</u>	<u>28,031,916</u>	<u>65,888,143</u>	<u>49,708,260</u>
Total revenues	<u>29,249,209</u>	<u>22,522,024</u>	<u>76,630,005</u>	<u>52,083,192</u>	<u>105,879,214</u>	<u>74,605,216</u>
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	<u>(1,228,241)</u>	<u>21,495</u>	<u>1,228,241</u>	<u>(21,495)</u>	<u>-</u>	<u>-</u>
(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	<u>(73,470,696)</u>	<u>(60,978,165)</u>	<u>179,882,110</u>	<u>162,861,332</u>	<u>106,411,414</u>	<u>101,883,167</u>
Net assets, end of year	\$ <u>(75,078,101)</u>	<u>(73,470,696)</u>	<u>193,154,850</u>	<u>179,882,110</u>	<u>118,076,749</u>	<u>106,411,414</u>

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**

## NEW MEXICO FINANCE AUTHORITY

## Statement of Net Assets

AS OF JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
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
<b>TOTAL ASSETS</b>	<b>\$ 47,421,304</b>	<b>1,039,643,360</b>	<b>1,087,064,664</b>
<b>LIABILITIES:</b>			
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
<b>TOTAL LIABILITIES</b>	<b>122,499,405</b>	<b>846,488,510</b>	<b>968,987,915</b>
<b>NET ASSETS:</b>			
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
<b>TOTAL NET ASSETS</b>	<b>(75,078,101)</b>	<b>193,154,850</b>	<b>118,076,749</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 47,421,304</b>	<b>1,039,643,360</b>	<b>1,087,064,664</b>

See Notes to Financial Statements.



NEW MEXICO FINANCE AUTHORITY

Statement of Activities



**YEAR ENDED JUNE 30, 2007**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>EXPENSES:</b>			
Capital financing	\$ 29,628,373	64,585,506	94,213,879
<b>PROGRAM REVENUES:</b>			
Charges for services	-	27,412,010	27,412,010
Operating grants and contributions	<u>6,041,563</u>	<u>6,537,498</u>	<u>12,579,061</u>
<b>NET PROGRAM EXPENSES</b>	(23,586,810)	(30,635,998)	(54,222,808)
<b>GENERAL REVENUES:</b>			
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	<u>20,492,405</u>	<u>-</u>	<u>20,492,405</u>
<b>TOTAL GENERAL REVENUES</b>	23,207,646	42,680,497	65,888,143
<b>TRANSFERS</b>	<u>(1,228,241)</u>	<u>1,228,241</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	(1,607,405)	13,272,740	11,665,335
<b>NET ASSETS, BEGINNING OF FISCAL YEAR</b>	<u>(73,470,696)</u>	<u>179,882,110</u>	<u>106,411,414</u>
<b>NET ASSETS, END OF FISCAL YEAR</b>	\$ <u><u>(75,078,101)</u></u>	<u><u>193,154,850</u></u>	<u><u>118,076,749</u></u>

NEW MEXICO FINANCE AUTHORITY

Balance Sheet - Governmental Funds

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
<b>ASSETS:</b>								
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
Restricted:								
Cash and cash equivalents held for others by trustee:	5,135,806	6,098,162	6,733,689	777,324	1,161,428	1,349,666	2,949,069	24,205,144
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
<b>TOTAL ASSETS</b>	\$ 5,135,806	6,319,102	6,733,689	2,060,810	7,633,795	13,548,064	3,533,154	45,024,420
<b>LIABILITIES:</b>								
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
<b>TOTAL LIABILITIES</b>	1,107,408	1,855,346	-	-	87,223	9,835	113,623	3,173,435
<b>FUND BALANCES:</b>								
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
<b>TOTAL FUND BALANCES</b>	4,028,398	4,463,756	6,733,689	2,060,810	7,546,572	13,538,229	3,479,531	41,850,985
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 5,135,806	6,319,102	6,733,689	2,060,810	7,633,795	13,548,064	3,533,154	45,024,420

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY

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

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	<u>(112,174)</u>

Total capital assets, net of depreciation	145,503
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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
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Long-term and certain other liabilities, including bonds payable,  
are not due and payable in the current period and therefore are  
not reported as liabilities in the funds.

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

Bonds payable, net of premium of \$ 2,071,134	(118,658,134)
Accrued interest payable	<u>(667,838)</u>

Total long-term and other liabilities	<u>(119,325,972)</u>
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Net assets of governmental activities (Statement of Net Assets)	\$ <u>(75,078,101)</u>
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NEW MEXICO FINANCE AUTHORITY

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

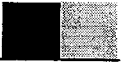
YEAR ENDED JUNE 30, 2007

	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
<b>REVENUES:</b>								
Grant revenue	-	-	-	-	6,041,563	-	-	6,041,563
Interest on loans	285,806	-	-	-	-	-	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
<b>TOTAL REVENUES</b>	<b>285,806</b>	<b>213,206</b>	<b>385,213</b>	<b>125,075</b>	<b>6,607,414</b>	<b>1,013,343</b>	<b>177,029</b>	<b>8,757,086</b>
<b>EXPENDITURES:</b>								
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	388,466
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
<b>TOTAL EXPENDITURES</b>	<b>370,905</b>	<b>6,731</b>	<b>2,859,750</b>	<b>5,842,821</b>	<b>10,460,318</b>	<b>8,990,768</b>	<b>2,694,467</b>	<b>31,225,760</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(135,099)</b>	<b>206,475</b>	<b>(2,474,537)</b>	<b>(5,717,746)</b>	<b>(3,852,904)</b>	<b>(7,977,425)</b>	<b>(2,517,438)</b>	<b>(22,468,674)</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
State General Fund appropriations	4,900,000	714,128	6,090,000	6,835,217	-	-	1,953,059	20,497,404
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)	(1,802,503)	-	-	(848,752)	(4,768,434)
<b>NET OTHER FINANCING SOURCES (USES)</b>	<b>4,900,000</b>	<b>740,216</b>	<b>(1,659,115)</b>	<b>5,513,095</b>	<b>(1,039)</b>	<b>-</b>	<b>3,507,572</b>	<b>14,495,729</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>4,764,901</b>	<b>946,691</b>	<b>(2,643,652)</b>	<b>(199,651)</b>	<b>(3,853,943)</b>	<b>(7,977,425)</b>	<b>990,134</b>	<b>(7,972,945)</b>
<b>FUND BALANCES, June 30, 2006</b>	<b>(736,503)</b>	<b>3,517,055</b>	<b>9,377,341</b>	<b>2,260,461</b>	<b>11,400,515</b>	<b>21,515,654</b>	<b>2,489,327</b>	<b>49,823,930</b>
<b>FUND BALANCES, June 30, 2007</b>	<b>4,028,398</b>	<b>4,463,756</b>	<b>6,733,689</b>	<b>2,060,810</b>	<b>7,546,572</b>	<b>13,538,229</b>	<b>3,479,531</b>	<b>41,850,985</b>

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY

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



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*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

NEW MEXICO FINANCE AUTHORITY

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, 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)	<u>2,251,383</u>	
		(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)	<u>2,071,134</u>	
		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	<u>(46,860)</u>	
Excess of depreciation expense over capital outlay		(17,876)
Decrease in capital assets		<u>(68,870)</u>
<b>Change in net assets of governmental activities</b> <b>(Statement of Activities)</b>		<b>\$ <u>(1,607,405)</u></b>

AS OF JUNE 30, 2007

	<u>Operating Fund</u>	<u>Public Project Revolving Funds</u>	<u>New Mexico Drinking Water Revolving Loan Fund</u>	<u>GRIP Administrative Fund</u>	<u>Primary Care Capital Fund</u>
<b>ASSETS:</b>					
<b>Current:</b>					
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	-
<b>Total current assets</b>	<u>2,223,410</u>	<u>24,639,549</u>	<u>8,324,083</u>	<u>2,715,318</u>	<u>20,439</u>
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	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 2,360,205</u>	<u>980,611,983</u>	<u>41,319,813</u>	<u>2,774,171</u>	<u>7,604,868</u>
<b>LIABILITIES:</b>					
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	-	-	-
<b>TOTAL LIABILITIES</b>	269,178	841,294,047	2,484,362	37,679	125,586
<b>NET ASSETS:</b>					
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	-
<b>TOTAL NET ASSETS</b>	<u>2,091,027</u>	<u>139,317,936</u>	<u>38,835,451</u>	<u>2,736,492</u>	<u>7,479,282</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,360,205</u>	<u>980,611,983</u>	<u>41,319,813</u>	<u>2,774,171</u>	<u>7,604,868</u>

NEW MEXICO FINANCE AUTHORITY

Statement of Net Assets - Enterprise Funds

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
<u>168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,206</u>
<u>124,030</u>	<u>-</u>	<u>1,921,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,968,182</u>
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
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,082</u>
<u>543,714</u>	<u>266,031</u>	<u>1,922,722</u>	<u>2,874,410</u>	<u>2,455</u>	<u>1,051</u>	<u>1,040,281,423</u>
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
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,250,000</u>	<u>-</u>	<u>-</u>	<u>660,381,699</u>
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
<u>-</u>	<u>-</u>	<u>882,600</u>	<u>262,437</u>	<u>(165,915)</u>	<u>-</u>	<u>5,662,075</u>
<u>525,888</u>	<u>(56,016)</u>	<u>1,919,981</u>	<u>477,599</u>	<u>(163,460)</u>	<u>(9,330)</u>	<u>193,154,850</u>
<u>543,714</u>	<u>266,031</u>	<u>1,922,722</u>	<u>2,874,410</u>	<u>2,455</u>	<u>1,051</u>	<u>1,040,281,423</u>



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
<b>OPERATING REVENUES:</b>					
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
<b>TOTAL OPERATING REVENUES</b>	<b>1,580,837</b>	<b>64,518,915</b>	<b>7,658,647</b>	<b>2,443,599</b>	<b>208,344</b>
<b>OPERATING EXPENSES:</b>					
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	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>708,957</b>	<b>33,305,105</b>	<b>419,776</b>	<b>666,963</b>	<b>128,030</b>
<b>OPERATING INCOME (LOSS)</b>	<b>871,880</b>	<b>31,213,810</b>	<b>7,238,871</b>	<b>1,776,636</b>	<b>80,314</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Miscellaneous revenue	-	-	-	-	-
<b>TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS</b>	<b>871,880</b>	<b>31,213,810</b>	<b>7,238,871</b>	<b>1,776,636</b>	<b>80,314</b>
<b>TRANSFERS:</b>					
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)	-	-	-
<b>TOTAL TRANSFERS</b>	<b>(392,988)</b>	<b>(24,600,266)</b>	<b>(3,008,527)</b>	<b>(990,500)</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>478,892</b>	<b>6,613,544</b>	<b>4,230,344</b>	<b>786,136</b>	<b>80,314</b>
<b>TOTAL NET ASSETS, June 30, 2006</b>	<b>1,612,135</b>	<b>132,704,392</b>	<b>34,605,107</b>	<b>1,950,356</b>	<b>7,398,968</b>
<b>TOTAL NET ASSETS, June 30, 2007</b>	<b>\$ 2,091,027</b>	<b>139,317,936</b>	<b>38,835,451</b>	<b>2,736,492</b>	<b>7,479,282</b>

NEW MEXICO FINANCE AUTHORITY

Statement of Revenues, Expenses and Changes  
in Fund Net Assets - Enterprise Funds



Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	NM Tax Credits	Energy Efficiency	Total
-	-	-	-	-	-	84,033,375
-	-	-	-	-	-	6,537,498
1,246	-	-	-	-	-	3,918,314
13,701	-	-	-	-	-	23,493,696
<u>5,352</u>	<u>11,902</u>	<u>48,811</u>	<u>138,644</u>	-	-	<u>67,982,883</u>
20,306	11,902	48,811	138,644	-	-	185,965,766
-	-	-	-	-	-	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
-	-	-	<u>136,602</u>	-	-	<u>29,430,731</u>
<u>56,634</u>	<u>21,262</u>	<u>11,280</u>	<u>136,786</u>	<u>163,460</u>	<u>9,330</u>	<u>35,628,233</u>
(36,328)	(9,360)	36,881	1,858	(163,460)	(9,330)	100,337,533
-	-	-	-	-	-	-
<u>(36,328)</u>	<u>(9,360)</u>	<u>36,881</u>	<u>1,858</u>	<u>(163,460)</u>	<u>(9,330)</u>	<u>100,337,533</u>
49,445	-	1,000,500	213,304	-	-	1,228,241
-	-	-	-	-	-	(5,395,045)
-	-	-	-	-	-	(23,562,228)
<u>49,445</u>	-	<u>1,000,500</u>	<u>213,304</u>	-	-	<u>(27,729,032)</u>
13,117	(9,360)	1,037,381	215,162	(163,460)	(9,330)	72,608,501
<u>512,771</u>	<u>(46,656)</u>	<u>882,600</u>	<u>262,437</u>	-	-	<u>120,546,349</u>
<u>525,888</u>	<u>(56,016)</u>	<u>1,212,981</u>	<u>477,522</u>	<u>(163,460)</u>	<u>(9,330)</u>	<u>193,154,850</u>

YEAR ENDED JUNE 30, 2007

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
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
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b>635,899</b>	<b>27,265,055</b>	<b>9,913,456</b>	<b>696,705</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
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)	-
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(392,988)</b>	<b>(17,496,734)</b>	<b>(4,220,727)</b>	<b>(990,500)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
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)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(26,252)</b>	<b>(7,263,963)</b>	<b>(4,205,341)</b>	<b>(18,427)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>216,659</b>	<b>2,504,358</b>	<b>1,487,388</b>	<b>(312,222)</b>
<b>CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2006</b>	<b>229,446</b>	<b>199,649,124</b>	<b>15,976,082</b>	<b>1,850,289</b>
<b>CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2007</b>	<b>\$ 446,105</b>	<b>202,153,482</b>	<b>17,463,470</b>	<b>1,538,067</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:</b>				
Adjustments to operating income:	\$ 478,892	6,613,544	4,230,344	786,136
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)
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 635,899</b>	<b>27,265,055</b>	<b>9,913,456</b>	<b>696,705</b>

Combined Statement of Cash Flows - Enterprise Funds

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

NEW MEXICO FINANCE AUTHORITY

Statement of Fiduciary Assets and Liabilities - Agency Funds

*AS OF JUNE 30, 2007*

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash at Trustee:	
Program funds	\$ 589,393,873
Expense funds	5,145,512
Bond reserve funds	<u>41,365,202</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>635,904,587</u></b>
<b>LIABILITIES:</b>	
Accounts payable	\$ 1,659,650
Debt service payable	588,374,034
Funds held for the New Mexico Department of Transportation	<u>45,870,903</u>
<b>TOTAL LIABILITIES</b>	<b>\$ <u>635,904,587</u></b>



## 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.

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**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.



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**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.

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**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.

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**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.

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**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.

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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.



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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

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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.

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**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).

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**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.

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**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.

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**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.

	<u>Book Balance</u>	<u>Bank Balance</u>
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	<u>446,105</u>	<u>476,236</u>
	271,142,556	271,173,294
Agency Fund:		
Money market accounts invested in Bank of Albuquerque	<u>635,904,587</u>	<u>635,904,587</u>
	\$ <u>907,047,143</u>	<u>907,077,881</u>

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	<u>400,988</u>
	687,422,802
Governmental funds:	
Smart Money Loans	1,724,445
C.O.P.S.	507,000
Water Trust Board Loan/Grants	<u>190,131</u>
	<u>2,421,576</u>
	\$ <u>689,844,378</u>

**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:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	\$	<u>661,814,372</u>	<u>236,795,181</u>	<u>898,609,553</u>

◆ **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:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	\$	<u>21,571,511</u>	<u>2,892,900</u>	<u>24,464,411</u>

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.

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	\$	<u>4,303,779</u>	<u>695,352</u>	<u>4,999,130</u>

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.

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
July 1, 2007 to June 30, 2008	\$	31,296	11,027	42,323
July 1, 2008 to maturity		369,692	58,398	428,090
	\$	<u>400,988</u>	<u>69,425</u>	<u>470,413</u>

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.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
July 1, 2007 to June 30, 2008	\$ -	-	-
July 1, 2008 to maturity	1,724,445	-	1,724,445
	<u>\$ 1,724,445</u>	<u>-</u>	<u>1,724,445</u>

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.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
July 1, 2007 to June 30, 2008	\$ 96,000	30,000	126,000
July 1, 2008 to maturity	411,000	92,859	503,859
	<u>\$ 507,000</u>	<u>122,859</u>	<u>629,859</u>

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.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
July 1, 2007 to June 30, 2008	\$ 13,020	-	13,020
July 1, 2008 to maturity	177,111	-	177,111
	<u>\$ 190,131</u>	<u>-</u>	<u>190,131</u>

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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Weighted Average Maturity (Years)</u>
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
	<u>\$ 10,609,203</u>	<u>3,384,301</u>	<u>13,492,484</u>	

**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
<b>Due From:</b>					
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
Enterprise 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:

	UNM Health Sciences 108/105	Metro Court 804	State Building 100	Transfers Out:			Other	Total
				Water and Wastewater Project 307	Water Project Fund 309			
<b>Transfers In:</b>								
<b>Governmental Funds:</b>								
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
<b>Total Governmental Funds</b>		<u>6,662,550</u>	<u>-</u>	<u>6,297,388</u>	<u>-</u>	<u>1,220</u>	<u>15,973,342</u>	<u>28,934,500</u>
<b>Transfers In:</b>								
<b>Enterprise Funds:</b>								
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
<b>Total Enterprise Funds:</b>		<u>5,499,452</u>	<u>1,000,500</u>	<u>6,713,687</u>	<u>49,445</u>	<u>12,979,230</u>	<u>19,696,923</u>	<u>45,939,237</u>
<b>Total Governmental and Enterprise Funds</b>		<u>\$ 12,162,002</u>	<u>1,000,500</u>	<u>13,011,075</u>	<u>49,445</u>	<u>12,980,450</u>	<u>35,670,265</u>	<u>74,873,737</u>

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.

\$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**

<u>State Agency</u>	<u>Agency Fund Number</u>	<u>Economic Development Fund</u>	<u>State Building Program Cigarette Tax Fund</u>	<u>State Office Building Financing Fund</u>	<u>UNM Health Sciences Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
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)
		<u>4,900,000</u>	<u>619,978</u>	<u>4,070,971</u>	<u>5,028,714</u>	<u>1,104,307</u>	<u>15,723,970</u>

**Enterprise Funds Operating Transfers from (to) Other State Agencies**

<u>State Agency</u>	<u>Agency Fund Number</u>	<u>Public Project Revolving Funds</u>	<u>New Mexico Drinking Water Revolving Loan Fund</u>
Bernalillo Metropolitan Court	24400	\$ (330,211)	-
NM Environment Department	66700	-	(3,008,527)
NM Department of Health	66500	(2,056,307)	-
		<u>(2,386,518)</u>	<u>(3,008,527)</u>

The Authority received \$20,492,404 in New Mexico state general fund appropriations from the Department of Finance and Administration.

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**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:

<u>Business-type Activities</u>	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2007</u>
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	<u>10,557</u>	<u>17,545</u>	<u>(1,170)</u>	<u>26,932</u>
	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	<u>(3,080)</u>	<u>(3,786)</u>	<u>980</u>	<u>(5,886)</u>
	<u>(192,088)</u>	<u>(75,634)</u>	<u>21,422</u>	<u>(246,300)</u>
Net total	\$ <u>360,882</u>	<u>45,456</u>	<u>(114,070)</u>	<u>292,268</u>

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 CRIP 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*

<u>Governmental Activities</u>	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2007</u>
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	<u>10,470</u>	<u>4,117</u>	<u>(1,269)</u>	<u>13,318</u>
	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	<u>(2,856)</u>	<u>(2,422)</u>	<u>657</u>	<u>(4,621)</u>
Accumulated depreciation	<u>(77,646)</u>	<u>(46,860)</u>	<u>12,332</u>	<u>(112,174)</u>
Net total	\$ <u>232,249</u>	<u>(17,876)</u>	<u>(68,870)</u>	<u>145,503</u>

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**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.

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**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.



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**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.

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**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

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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.

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**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

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**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:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
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	<u>2,375,000</u>	5.51	5/1/2026
	661,114,000		
Bond premium and discount, net on enterprise funds	<u>30,410,699</u>		
Total	\$ <u>691,524,699</u>		

8. **BONDS PAYABLE – continued**

	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
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	<u>                    -</u>	3.95 - 5.25	6/1/2006
	116,587,000		
Bond premium and discount, net on Debt Service Funds	<u>2,071,134</u>		
Total	\$ <u>118,658,134</u>		

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>23,970,000</u>	<u>2,862,050</u>	<u>26,832,050</u>
Total	\$ <u>777,701,000</u>	<u>366,995,658</u>	<u>1,144,696,658</u>

**8. BONDS PAYABLE - continued**

The bonds payable activity for the year is as follows:

	<u>Balance,</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance,</u> <u>June 30, 2007</u>
Enterprise Funds	\$ 577,348,000	130,270,000	(46,504,000)	661,114,000
Debt Service Funds	<u>123,519,000</u>	-	(6,932,000)	<u>116,587,000</u>
Total	\$ <u>700,867,000</u>	<u>130,270,000</u>	<u>(53,436,000)</u>	<u>777,701,000</u>

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.



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**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.	\$	<u>1,855,346</u>
		1,855,346
Less current maturities		<u>150,557</u>
	\$	<u>1,704,789</u>

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		<u>1,033,675</u>
	\$	<u>1,855,346</u>

**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.

	<u>Balance,</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance,</u> <u>June 30, 2007</u>	<u>Short-term</u> <u>Portion</u>
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	<u>-</u>
	<u>\$ 926,621</u>

**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:

Statement of Fiduciary Net Assets

## Assets:

Cash	\$	-
Self-directed accounts (cash and investments)		1,667,625
Guaranteed Account		10,520
Participant loan receivable		<u>32,721</u>
Total assets	\$	<u>1,710,866</u>

## Net assets:

Pension plan participants' benefits	\$	<u>1,710,866</u>
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Statement of Changes in Net Assets

## Additions:

Investment earnings	\$	241,715
Employer contributions		301,982
Rollover contributions		42,447
Employee contributions		<u>104,087</u>

Total additions		690,231
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## Deductions:

Distributions to participants		128,600
Investment expenses		<u>12,493</u>

Total deductions		141,093
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**12. RETIREMENT PLAN - continued**

Change in net assets	\$ 549,138
Net assets - beginning	<u>1,161,748</u>
Net assets - ending	\$ <u>1,710,886</u>

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:

	<u>Balance, July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2007</u>
\$	<u>162,277</u>	<u>190,065</u>	<u>160,254</u>	<u>192,088</u>

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.

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**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.

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**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.

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**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.



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**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

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**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 rate 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.

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**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 rate 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:

	<u>Closing Date</u>	<u>Amount</u>
<b>PPRF Cash Loans:</b>		
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
<b>Water Project Fund/Water Trust Board:</b>		
WPF/WTB - Elephant Butte	8/3/2007	121,175
WPF/WTB - Anthony WSD	9/14/2007	75,000

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**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**



NEW MEXICO FINANCE AUTHORITY

Balance Sheet - Other Governmental Funds

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
<b>ASSETS:</b>							
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
Restricted:							
Cash and cash equivalents held for others by trustee:							
Debt service	-	-	-	620,383	-	23,702	644,085
Bond reserve	-	-	-	-	-	-	-
Program - bond proceeds	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	\$ 273,887	1,114,125	-	1,283,609	383,197	538,336	3,593,154
<b>LIABILITIES:</b>							
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
<b>TOTAL LIABILITIES</b>	-	9,657	-	-	80,263	23,703	113,623
<b>FUND BALANCES:</b>							
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
<b>TOTAL FUND BALANCES</b>	273,887	1,104,468	-	1,283,609	302,934	514,633	3,479,531
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 273,887	1,114,125	-	1,283,609	383,197	538,336	3,593,154

See Independent Auditors' Report.

NEW MEXICO FINANCE AUTHORITY

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

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	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>13,738</b>	<b>50,942</b>	<b>-</b>	<b>60,097</b>	<b>14,954</b>	<b>37,298</b>	<b>177,029</b>
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	45,025	39,200	1,446,560
<b>TOTAL EXPENDITURES</b>	<b>155</b>	<b>123,575</b>	<b>1,016,382</b>	<b>357,236</b>	<b>995,919</b>	<b>201,200</b>	<b>2,694,467</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>13,583</b>	<b>(72,633)</b>	<b>(1,016,382)</b>	<b>(297,139)</b>	<b>(980,965)</b>	<b>(163,902)</b>	<b>(2,517,438)</b>
OTHER FINANCING SOURCES (USES):							
State General Fund appropriations	-	-	-	1,165,238	998,122	(205,301)	1,958,059
Transfers (to) from other funds	1,040	-	2,403,004	-	-	(779)	2,403,265
Transfers to other state agencies	-	-	-	(848,752)	-	-	(848,752)
<b>NET OTHER FINANCING SOURCES (USES)</b>	<b>1,040</b>	<b>-</b>	<b>2,403,004</b>	<b>316,486</b>	<b>998,122</b>	<b>(206,080)</b>	<b>3,507,572</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>14,623</b>	<b>(72,633)</b>	<b>1,386,622</b>	<b>19,347</b>	<b>12,157</b>	<b>(369,982)</b>	<b>990,134</b>
<b>FUND BALANCES, June 30, 2006</b>	<b>259,264</b>	<b>1,177,101</b>	<b>(1,386,622)</b>	<b>1,264,262</b>	<b>290,777</b>	<b>884,615</b>	<b>2,489,397</b>
<b>FUND BALANCES, June 30, 2007</b>	<b>273,887</b>	<b>1,104,468</b>	<b>-</b>	<b>1,283,609</b>	<b>302,934</b>	<b>514,633</b>	<b>3,479,531</b>

See Independent Auditors' Report.

## **SUPPLEMENTAL SCHEDULES**

## Schedule 1 - Supplemental Schedule of Pledged Collateral

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%.

Schedule 2 - Schedule of Individual Deposit and Investment Accounts

YEAR ENDED JUNE 30, 2007

Description	Type	State Treasurer	State Treasurer Capital Fund	State Treasurer Cash Held at			Wells Fargo	Total	Total Book Balance
				Bank of Albuquerque	Bank of Albuquerque	Bank of America			
Local Government									
Investment Pool *	Government	\$ 108,307,967	-	-	-	-	108,307,967	108,307,967	
Primary Care	Government								
Capital Fund	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	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	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	20,812,276	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, Commercial Paper and Money Market.

Schedule 3 - Agency Funds - Schedule of Changes in Assets and Liabilities



YEAR ENDED JUNE 30, 2007

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES A</b>				
<i>Fund 315</i>				
<b>ASSETS:</b>				
Cash and investments	\$ <u>408,236,061</u>	<u>91,176,601</u>	<u>268,059,227</u>	<u>231,353,435</u>
<b>TOTAL ASSETS</b>	\$ <u>408,236,061</u>	<u>91,176,601</u>	<u>268,059,227</u>	<u>231,353,435</u>
<b>LIABILITIES:</b>				
Deposits held in trust for others	\$ <u>408,236,061</u>	<u>91,094,994</u>	<u>267,977,620</u>	<u>231,353,435</u>
<b>TOTAL LIABILITIES</b>	\$ <u>408,236,061</u>	<u>91,094,994</u>	<u>267,977,620</u>	<u>231,353,435</u>
<b>DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES 2006</b>				
<i>Fund 322</i>				
<b>ASSETS:</b>				
Cash and investments	\$ <u>-</u>	<u>485,524</u>	<u>80,999,372</u>	<u>404,551,152</u>
<b>TOTAL ASSETS</b>	\$ <u>-</u>	<u>485,524</u>	<u>80,999,372</u>	<u>404,551,152</u>
<b>LIABILITIES:</b>				
Deposits held in trust for others	\$ <u>-</u>	<u>483,693,461</u>	<u>79,142,309</u>	<u>404,551,152</u>
<b>TOTAL LIABILITIES</b>	\$ <u>-</u>	<u>483,693,461</u>	<u>79,142,309</u>	<u>404,551,152</u>

**SINGLE AUDIT**

Supplemental Schedule of Expenditures of Federal Awards



*YEAR ENDED JUNE 30, 2007*

<b>Federal Agency/ Pass-Through Agency</b>	<b>Federal CFDA Number</b>	<b>Federal Participating Expenditures</b>
Environmental Protection Agency: Capitalization Grants for Drinking Water State Revolving Funds	66.648	\$ <u>6,537,498</u>
Total EPA		\$ <u>6,537,498</u>
<b>Funds passed through to sub-recipients</b>		\$ <u>3,008,527</u>
<b>Loans funded</b>	<b><u>Original Balance</u></b>	<b><u>Balance at June 30, 2007</u></b>
Revolving loans		
Loans funded in previous years	\$ <u>35,776,618</u>	<u>21,571,511</u>
Total loans funded	\$ <u>35,776,618</u>	<u>21,571,511</u>

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	\$ 3,008,527
Total non-interest expense	<u>419,776</u>
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	<u>3,109,195</u>
Total EPA expenditures	\$ <u>6,537,498</u>



**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**

New Mexico Finance Authority  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor

MEYNER'S +
COMPANY, L.L.C.
<i>Certified Public Accountants/ Consultants to Business</i>
500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

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**

MEYNER'S +
COMPANY, LLC
<i>Certified Public Accountants/ Consultants to Business</i>
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.

Schedule of Findings and Questioned Costs - continued



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

None.

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

None.

**NEW MEXICO FINANCE AUTHORITY**

**Summary Schedule of Prior Year Audit Findings**



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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

**MEYNER + 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.