New Mexico Finance Authority

State of New Mexico

Financial Statements

June 30, 2011

REDW LLC
CPAs | Business & Financial Advisors

New Mexico Finance Authority
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New Mexico Finance Authority

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New Mexico Finance Authority

Official Roster

Year Ended June 30, 2011

Governing Board

Vacant, Chair
William F. Fulginiti, Vice Chair
Paul Gutierrez, Secretary
Blake Curtis, Treasurer
David Martin, Member
Richard May, Member
Jon Barela, Member
John Bemis, Member
Steve Moise, Member
Terry White, Member
Lonnie Marquez, Member
Vacant, Member

Chief Executive Officer-Interim

John Duff

Chief Operating Officer/Chief Financial Officer

John Duff

Independent Auditor's Report

Governing Board
New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico Office of the State Auditor
Santa Fe, NM

We have audited the accompanying basic financial statements of New Mexico Finance Authority (the "Authority"), a component unit of the State of New Mexico, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Authority, as of June 30, 2011, and the changes in financial position and cash flows 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 February 5, 2013, on our consideration of Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements. The supplementary schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

REDW LLC

Albuquerque, New Mexico
February 5, 2013

New Mexico Finance Authority
Management's Discussion and Analysis
June 30, 2011

This section of the New Mexico Finance Authority's (the "Authority") annual financial statements presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2011 and financial condition at that date. This section should be read together with the Authority's financial statements and accompanying notes.

The New Mexico Finance Authority

The Authority was created by the New Mexico State Legislature in 1992 to finance infrastructure projects for the state's counties, cities and certain departments of state government. The objective was to provide low-cost financing for borrowers who might not otherwise be able to access the tax-exempt bond market on a cost-effective basis. The 1992 statute created the Public Projects Revolving Fund (PPRF) as the vehicle to accomplish this financing objective. As authorized by the statute, the Authority issues tax-exempt PPRF bonds to obtain the funds it loans to New Mexico governmental entities. The statute created the Governmental Gross Receipts Tax as a source of funding for Authority operations and to serve as a credit enhancement for the Authority's bonds. Although the legislature has created additional program responsibilities for the Authority, the PPRF remains the core of its activities.

Overview of the Financial Statements

These annual financial statements consist of three parts:

1. Management's discussion and analysis (this section), including condensed, comparative financial statements.
2. The financial statements (Statement of net assets, statement of revenues, expenses, and changes in net assets, agency funds statement of assets and liabilities and statement of cash flows) and related notes.
3. Supplementary information

New Mexico Finance Authority
Condensed Comparative Combined Statements of Net Assets
As of June 30

	2011	2010	Net Increase / Decrease)	Percentage Increase / (Decrease)
Assets				
Cash and equivalents:				
Unrestricted	$ 119,475,379	$ 120,385,376	$ (909,997)	-.8%
Restricted	135,349,071	268,285,157	(132,936,086)	-49.6%
Investments - restricted	119,189,886	-	119,189,886	100%
Loans receivable, net of allowance	1,222,384,290	1,252,122,229	(29,737,939)	-2.4%
Intergovernmental receivables	140,811,240	147,842,525	(7,031,285)	-4.7%
Other receivables	13,139,725	14,730,931	(1,591,206)	-10.8%
Capital assets	187,411	273,500	(86,089)	-31.5%
Other assets	10,732,577	11,798,048	(1,065,471)	-9.0%
Total assets	**$ 1,761,269,579**	**$ 1,815,437,766**	**$ (54,168,187)**	**-3.0%**
Liabilities				
Bonds payable, net	$ 1,223,042,042	$ 1,233,720,390	$ (10,678,348)	-0.9%
Undisbursed loan proceeds	74,534,357	116,283,533	(41,749,176)	-35.9%
Advanced loan payments	76,070,383	72,521,339	3,549,044	4.9%
Accounts payable and accrued payroll	693,147	2,787,600	(2,094,453)	-75.1%
Other liabilities	7,086,492	4,775,269	2,311,223	48.4%
Total liabilities	**1,381,426,421**	**1,430,088,131**	**(48,661,710)**	**-3.4%**
Net Assets				
Invested in capital assets	187,411	273,500	(86,089)	-31.5%
Restricted for debt service	27,721,370	8,996,558	18,724,812	208.1%
Restricted for program funds	232,786,337	256,256,427	(23,470,090)	9.1%
Unrestricted	119,148,040	119,823,150	(675,110)	0.6%
Total net assets	**379,843,158**	**385,349,635**	**(5,506,477)**	**-1.4%**
Total liabilities and net assets	**$ 1,761,269,579**	**$ 1,815,437,766**	**$ (54,168,187)**	**-3.0%**

The Authority's overall financial position deteriorated slightly in the past year. The key indicator is total net assets decreased by $5.5 million or 1.4%

The Authority's unrestricted cash fell less than 1%. Restricted cash decreased by 50% or $133 million in 2011, due to the investment of a portion of those restricted funds. At June 30, 2011 32% of the Authority's holdings were in investments with maturity dates longer than three months. The conversion from holding cash equivalents separately to pooling balances for investments, made in May of 2011, with the intent to maximize the yield on account balances. Safety and maintenance of liquidity remained the objectives of the investment activity and the balances at year-end are within the compliance limits set forth in the Authority's investment policy. More detailed information is listed in Note 2 to the financial statements.

Loans receivable decreased by $29.7 million or 2% in 2011, primarily as a result of new loans made during the year totaling $212.9 million less loan payments received of $240.1 million and allowance for loan losses increasing by $2.5 million. Loan payments include loan payoffs of $37 million.

During fiscal year 2011, the Authority invested only $24,000 in capital assets. More detailed information about the Authority's capital assets is presented in Note 6 to the financial statements.

Bonds payable decreased by $10.7 million in 2011 resulting from the issuance of $71.6 million of new bonds, principal payments on outstanding bonds of $80.9 million, and amortization of bond premium of $1.4 million

Undisbursed loan proceeds to be provided decreased by $41.7 million during 2011 due to the loan payoff activity that occurred. Accounts payable decreased due to the elimination of the amounts due and owed from intra-agency programs.

Long-Term Debt

The Authority's long-term debt consists of outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2011, the total amount outstanding was $1.22 billion (excluding the $1.7 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 7 to the financial statements.

During the fiscal year, the Authority issued $71.6 million in PPRF debt, primarily to directly fund loans and to reimburse the PPRF loan fund for loans already made.

New Mexico Finance Authority
Condensed Comparative Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30

	FY 2011	FY 2010	Net Increase Decrease)	Percentage Increase (Decrease)
Operating Revenues				
Administrative fees	$ 6,808,876	$ 8,621,728	$ (1,812,852)	-21.0%
Interest on loans	55,572,510	56,663,765	(1,091,255)	-1.9%
Interest on investments	805,923	1,343,523	(537,600)	-40.0%
Total operating revenues	**63,187,309**	**66,629,016**	**(3,441,707)**	**-5.2%**
Expenses				
Grant expense	53,887,305	60,106,858	(6,219,553)	-10.4%
Bond issuance costs	697,665	1,840,185	(1,142,520)	-62.1%
Professional services	2,212,384	4,727,242	(2,514,858)	-53.2%
Salaries and benefits	4,184,572	3,808,883	375,689	9.9%
Debt service – interest expense	56,681,856	55,622,227	1,059,629	1.9%
Other expense	4,316,239	1,911,215	2,405,024	125.84%
Total operating expenses	**121,980,021**	**128,016,610**	**(6,036,589)**	**-4.7%**
Net operating revenue (expense)	(58,792,712)	(61,387,594)	(2,594,882)	-4.2%
Nonoperating Revenues (Expenses)				
Appropriation revenue	34,842,554	32,722,377	2,120,177	6.0%
Grant revenue	42,924,828	42,184,646	740,182	1.6%
Reversions and transfers	(24,481,147)	(29,070,530)	4,589,383	1.5%
Gain (loss) on investments	-	6,758,315	(6,758,315)	-100%
	53,286,235	52,594,808	691,427	1.3%
Increase (decrease) in net assets	(5,506,477)	(8,792,786)	3,286,309	-37.4%
Net assets, beginning of year	385,349,635	394,142,421	(8,792,786)	-2.2%
Net assets, end of year	**$ 379,843,158**	**$ 385,349,635**	**$ (5,506,477)**	**-1.4%**

Analysis of the Authority's Overall Financial Position and Results of Operations

The Authority's appropriation revenue increased by $2.1 million in fiscal year 2011, representing about 6% over fiscal year 2010. The increase reflects a reasonable increase in the governmental gross receipts tax received by the Authority.

A $1.8 million decrease in administrative fees revenue was experienced due to a change in the structure of loan administration fees. Previous policy allowed for a fee of 25 basis points to be applied at the loan closing. During the fiscal year a modification was initiated in the fee structure for the PPRF loans. The change allows for a lesser fee to be charged up front with an ongoing fee built into the loan payments. The overall earnings per loan in administrative fees does not change significantly, however the new structure will provide a revenue source throughout the life and servicing of the loans and also lessen the impact to the borrower at closing. Grant revenue and interest revenue remained fairly constant.

Grant expense decreased as a result of a decreased amount of draws requested for both the drinking water program and the water trust board program. The volume of this activity increased during the 2012 fiscal year as planned.

Both professional services and bond issue costs decreased due to a significantly lower amount of bonds issued.

Overall, the Authority's net assets decreased by 1.4% in 2011.

Authority Programs

The Authority accounts for each of its programs separately, each with its own assets, liabilities, net assets, income and expense. The Public Project Revolving Fund is highlighted in the following discussion due to the significance of the program.

Public Project Revolving Fund

The Authority began its existence in 1992 to administer the PPRF. The mission of the PPRF is to make affordable tax-exempt financing for infrastructure projects available to borrowers who could not, on their own, access the bond market on a cost-effective basis. New Mexico's counties, cities and certain departments of state government qualify as entities who can borrow from the PPRF. Departments of state governments and certain not-for-profit entities, including state universities, are also eligible borrowers. Since 1993, the PPRF has made 996 loans totaling $1.9 billion.

The PPRF makes loans of less than $5 million from its own funds on hand. It then replenishes its cash balance at a later date by "packaging" the loans as collateral and selling tax-exempt bonds. Loans for amounts larger than $5 million are funded by closing the loans at the same time a reimbursement bond issue closes, thus ensuring a precise matching of loan and bond interest rates.

The PPRF operates, in many respects, in the same manner as a bank or other lending institution. Infrastructure finance agencies similar to the PPRF are often called "bond banks." Financial statements for the PPRF are presented in the following pages in a format similar to that employed by commercial banking organizations.

New Mexico Finance Authority
Public Projects Revolving Fund
Condensed Comparative Statements of Net Assets
As of June 30

	FY 2011	FY 2010	Net Increase / (Decrease)	Percentage Increase / (Decrease)
Assets				
Cash and equivalents				
Unrestricted	$ 97,054,346	$ 104,334,458	$ (7,280,112)	-7.0%
Restricted	96,368,542	194,585,959	(98,217,417)	-50.5%
Restricted investments	119,189,886	-	119,189,886	100%
Accounts receivable and other	16,714,736	15,355,772	1,358,964	8.8%
Loans receivable, net of allowance for uncollectable accounts	1,140,391,615	1,175,365,082	(34,973,467)	-3.0%
Due from the State of New Mexico	114,370,000	124,242,525	(9,872,525)	-7.9%
Capital assets	187,411	273,500	(86,089)	-31.5%
Other assets	17,367,540	11,080,562	6,286,978	56.7%
Total assets	**$ 1,601,644,076**	**$ 1,625,237,858**	**$ (23,593,782)**	**-1.5%**

	FY 2011	FY 2010	Net Increase / (Decrease)	Percentage Increase / (Decrease)
Liabilities				
Accounts payable and accrued liabilities	7,647,974	5,511,698	2,136,276	38.8%
Undisbursed loan proceeds	74,472,265	115,755,854	(41,283,589)	-35.7%
Borrowers' debt service and reserve deposits	77,020,002	72,262,720	4,757,282	6.6%
Bonds payable, net	1,199,649,242	1,206,727,970	(7,078,728)	-0.6%
Total liabilities	**1,358,789,483**	**1,400,258,242**	**(41,468,759)**	**-3.0%**
Net Assets				
Invested in capital assets	187,411	273,500	(86,089)	-31.5%
Restricted for program funds	145,612,836	121,455,776	24,157,060	19.9%
Unrestricted	97,054,346	103,250,340	(6,195,994)	-6.0%
Total net assets	**242,854,593**	**224,979,616**	**17,874,977**	**7.9%**
Total liabilities and net assets	**$ 1,601,644,076**	**$ 1,625,237,858**	**$ (23,593,782)**	**-1.5%**

Loan Volume

	2011	2010	Since Inception
Amount of loans made	$168.2 million	$195.2 million	$1.940 billion
Number of loans made	87	92	966
Average loan size	$1.9 million	$2.1 million	$2.5 million

Both average loan size and the number of loans made in 2011 decreased from the previous year.

Loans Receivable

There were no defaults on PPRF loans during 2011 and no delinquencies as of June 30, 2011, or at the date of these financial statements.

New Mexico Finance Authority
Management's Discussion and Analysis
June 30, 2011

Bond Issuance

During fiscal 2011, the PPRF issued 2 series of bonds, with a total par value of $71.6 million.

New Mexico Finance Authority
Public Projects Revolving Fund
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30

	FY 2011	FY 2010	Net Increase / (Decrease)	Percentage Increase / (Decrease)
Interest Income				
Loans	$ 52,828,553	$ 53,236,068	$ (407,515)	-0.8%
Investments	384,701	1,147,112	(762,411)	-66.5%
Total interest income	**53,213,254**	**54,383,180**	**(1,169,926)**	**-2.2%**
Interest Expense				
Bonds	55,170,397	53,958,237	1,212,160	2.3%
Short-term borrowing	157,843	124,354	33,489	26.9%
Total interest expense	**55,328,240**	**54,082,591**	**1,245,649**	**2.3%**
Net Interest Income (Loss)				
Interest income (loss) less interest expense	(2,114,986)	300,591	(2,415,577)	-803.6%
Less provision for loan losses	(1,164,526)	(445,867)	(718,659)	161.2%
Net interest loss after provision for loan losses	**(3,279,512)**	**(145,276)**	**(3,134,236)**	**2157.4%**
Noninterest Income				
Loan administration fees	3,134,894	4,212,544	(1,077,650)	-25.6%
Appropriation revenues	26,909,639	24,314,901	2,594,738	10.7%
Total noninterest income	**30,044,533**	**28,527,445**	**1,517,088**	**5.3%**
Noninterest Expense				
Salaries and benefits	2,421,316	2,169,436	251,880	11.6%
Professional services	1,279,285	2,423,424	(1,144,139)	-47.2%

	FY 2011	FY 2010	Net Increase / (Decrease)	Percentage Increase / (Decrease)
Bond issuance costs	610,222	1,752,742	(1,142,520)	-65.2%
Gain on investments	-	(3,089,577)	3,089,577	100.0%
Other	1,883,650	846,618	1,037,032	122.5%
Total noninterest expense	**6,194,473**	**4,102,643**	**2,091,830**	**51.0%**
Excess of revenues over expenditures	**20,570,548**	**24,279,522**	**(3,708,974)**	**-15.3%**
Transfers to other funds or agencies	**(2,695,573)**	**(3,333,342)**	**637,769**	**-19.1%**
Increase (decrease) in net assets	**17,874,975**	**20,946,180**	**(3,071,205)**	**-14.7%**
Net assets, beginning of year	**224,979,616**	**204,033,436**	**20,946,180**	**10.3%**
Net assets, end of year	**$ 242,854,591**	**$ 224,979,616**	**$ 17,874,975**	**8.0%**

Net Interest Income

As a not-for profit lender, the Authority attempts to pass on to its borrowers the same rates it pays on the bonds it issues to provide the funds it loans. Therefore, in its planning and management processes, the Authority attempts to achieve approximately zero net interest income in the PPRF. In 2011, the PPRF had a net interest loss of $3.3 million, compared to $145 thousand in 2010. This is a result of market conditions in which $111.2 million in PPRF loans exercised their early call provisions and the Authority relent those loan repayments at moderately lower interest rates. See Note 14 Contingencies – Loan Prepayment and Bond Call Provisions.

Governmental Gross Receipts Tax

The Governmental Gross Receipts Tax (GGRT) is a tax imposed on the gross receipts of municipalities for services rendered to customers such as water, sewer, and solid waste collection. 75% of GGRT collections are appropriated to the PPRF. The Authority's share of GGRT collections was $24,518,214 in 2011, a $1,465,162 increase from the $23,053,051 received in 2010. The GGRT funds are used as follows:

1. as a credit enhancement for the PPRF bonds. In the event of defaults on loans, GGRT funds can be used to make up for any shortfall in funds available for bond payments.

2. To fund loans to borrowers, especially smaller loans which the Authority may choose to not reimburse in a bond issue.
3. To pay operating expenses of the PPRF.

Other Programs

The PPRF accounts for a large portion of total Authority activity. At June 30, 2011 and for the year then ended, the relationships were as follows:

	PPRF	Total Authority	% PPRF
Total assets	$1.6 billion	$1.8 billion	88.9%
Net assets	$243.2 million	$380.2 million	64.0%
Revenues	$83.1 million	$138.5 million	60.0%

There are 14 other programs administered by the Authority, some of which are loan programs and some of which are grant programs.

The Authority experienced decreased funding of Water Projects Fund projects resulted primarily from a policy change that requires, as a condition for approval, that a project be ready to begin construction immediately upon approval. This policy change significantly accelerated the construction funding process in the current funding cycle.

A decline occurred in grant volume for the Local Government Transportation Fund because most of the funds were appropriated to the Authority on a one-time basis. Most of the funds have been expended, and the program is in its final stages with expected final disbursements by June 2013.

Similar to the Local Government Transportation Fund, an increase in the Water and Wastewater Project Grant Fund grant activity reflects the fact that the program is closing out its one-time appropriation received from the state legislature and with final expenditures for projects expected by December 2011.

In 2008, the Authority was awarded a $110 million allocation of New Markets Tax Credits by the U.S. Treasury Department. Under this program, the Authority can provide federal income tax credits to incentivize businesses to create jobs and otherwise contribute to the economic development of the state. During fiscal year 2009, the Authority made its first award of tax credits for $15.5 million. During 2011, the Authority made one additional award totaling $12.5 million bringing total awards to date over $58.3 million. Subsequent to June 30, 2011, the Authority has made two additional awards totaling $18 million. The tax credits have no impact on the financial statements of the Authority beyond the expenses incurred to administer the program and the fees charged to applicants and recipients of the credits, which are minimal.

Budgetary Variations, Capital and Infrastructure Assets

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary information. The Authority has an immaterial amount of capital assets, and owns no infrastructure assets. See further information regarding capital assets in the notes of the financial statements.

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Substantial additional information is available on the Authority's website at www.nmfa.net. 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

Statement of Net Assets
June 30, 2011

Assets	
Current assets	
Cash and equivalents	
Unrestricted	$ 119,475,379
Restricted	135,349,071
Interest receivable	9,077,480
Grants receivable	3,659,581
Prepaid rent	19,500
Administrative fees receivable	402,664
Investment in Finance New Mexico	99,010
Loans receivable, net of allowance	83,868,725
Intergovernmental receivables	7,065,435
Total current assets	359,016,845
Noncurrent assets	
Restricted investments	119,189,886
Loans receivable, net of allowance	1,138,515,565
Intergovernmental receivables	133,745,805
Capital assets, net of accumulated depreciation	187,411
Deferred cost, net of accumulated amortization	10,614,067
Total assets	$ 1,761,269,579
Liabilities	
Current liabilities	
Accounts payable	286,162
Accrued payroll	110,991
Compensated absences	295,994
Funds held for others	620,825
Bond interest payable	4,303,121
Undisbursed loan proceeds	74,534,357
Advanced loan payments	76,070,383
Bonds payable, net	72,569,000
Other liabilities	2,162,546
Total current liabilities	230,953,379
Noncurrent liabilities	
Bonds payable	1,150,473,042
Total liabilities	1,381,426,421
Net Assets	
Invested in capital assets	187,411
Restricted for debt service	27,721,370
Restricted for program commitments	232,786,337
Unrestricted	119,148,040
Total net assets	379,843,158
Total liabilities and net assets	$ 1,761,269,579

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

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

Operating Revenues	
Administrative fees revenue	$ 5,203,103
Processing fee	1,605,773
Interest on loans	55,572,510
Interest on investments	805,923
Total operating revenues	63,187,309
Operating Expenses	
Grants to others	53,887,305
Bond issuance costs	697,665
Administrative fees	271,317
Professional services	2,212,384
Salaries and benefits	4,184,572
Other operating costs	1,476,455
Depreciation expense	110,011
Bond interest expense	56,305,515
Provision for loan losses	2,458,456
Interest expense	376,341
Total operating expenses	121,980,021
Net operating loss	(58,792,712)
Nonoperating Revenues (Expenses)	
Appropriation revenue	34,842,554
Grant revenue	42,924,828
Transfers to the State of New Mexico	(6,069,055)
Reversions	(18,412,092)
Decrease in net assets	(5,506,477)
Net assets, beginning of year	385,349,635
Net assets, end of year	$ 379,843,158

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

Cash Flows From Operating Activities	
Cash paid for employee services	$ (4,269,926)
Cash paid to vendors for services	(2,856,937)
Intergovernmental payments received	7,031,285
Loans payments received	240,151,588
Loan payments funded	(212,872,105)
Grants awarded	(52,064,117)
Cash received from federal government for revolving loan funds	41,787,883
Interest income received	55,150,333
Administrative fees received	7,797,797
Net cash provided by operating activities	79,855,801
Cash Flow From Noncapital Financing Activities	
Reversions	(18,412,092)
Cash received from the State of New Mexico	34,842,554
Cash transfers to the State of New Mexico	(6,069,055)
Proceeds from the sale of bonds	71,585,000
Payment of bonds	(80,850,000)
Bond issuance costs	(610,222)
Interest expense paid	(57,211,502)
Cash disbursed for program purposes	(38,147,460)
Net cash used in noncapital financing activities	(94,872,777)
Cash Flow From Capital and Related Financing Activities	
Capital assets	(23,922)
Net cash used in capital and related financing activities	(23,922)
Cash Flow From Investing Activities	
Purchase of investments	(119,189,886)
Interest received	384,701
Net cash used in investing activities	(118,805,185)
Net decrease in cash and cash equivalents	(133,846,083)
Cash and cash equivalents, beginning of year	388,670,533
Cash and cash equivalents, end of year	$ 254,824,450

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

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Total operating income (loss)	$ (58,792,712)
Adjustments to change in net assets	
Depreciation and amortization	1,645,933
Interest expense	57,369,345
Bad debt expense	2,201,915
Appropriation, transfers and grants	41,787,883
Changes in assets and liabilities	
Loan receivables	32,381,664
Advance loan payments	3,544,505
Prepaids and receivables	(3,580,889)
Payables and other accrued liabilities	3,298,157
Net cash provided by operating activities	$ 79,855,801

Assets		
Cash held by Trustee		
Program funds	$	102,547,246
Expense funds		269,390
Revenue funds		8,645,252
Rebate fund		1,540,002
Bond reserve funds		42,803,573
Total assets	$	155,805,463
Liabilities		
Accounts payable	$	1,809,392
Debt service payable		51,448,825
Program funds held for the NM Department of Transportation		102,547,246
Total liabilities	$	155,805,463

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

1) Nature of Organization

The New Mexico Finance Authority (the "Authority"), a component unit of the State of New Mexico (the "State"), is a public instrumentality of the State, organized and existing pursuant to the New Mexico Finance Authority Act (the "Act") created by the Laws of 1992 Chapter 61, as amended. The Authority has broad powers to provide financing for an array of infrastructure and economic development projects. The Authority also provides for long-term planning and assessment of state and local capital needs and improves cooperation among the executive and legislative branches of state government and local governments in financing public projects.

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

The Authority issues loans to entities pursuant to the rules and regulations governing the Public Projects Revolving Loan Fund Program (PPRF). The PPRF provides low cost financing to local government entities for a variety of infrastructure projects throughout the State. The PPRF Program receives 75 percent of the Governmental Gross Receipts Tax of the State of New Mexico pursuant to section 7-1-6.1 NMSA, 1978, and may issue bonds in amounts deemed necessary to provide sufficient money for the purposes set forth by the New Mexico Finance Authority Act. Bonds are issued under a Master Indenture as well as individual Series Indentures, proceeds and covenants of which are administered through a trust relationship established by contract with a trust company or bank bearing trust powers (Trustee) and the Authority. The Authority may also serve as conduit issuer of revenue bonds for other governmental agencies.

The Authority manages the Drinking Water State Revolving Loan Program (DWRLF) and the Water Trust Board Program (WTB). The DWRLF provides low cost financing for the construction of and improvements to drinking water facilities throughout New Mexico in order to protect drinking water quality and public health. This program is primarily funded through a federal capitalization grant which the State is required to match by 20%. The WTB program provides grant and interest free loans to support water projects which support water use efficiency, resource conservation and protection and fair distribution and allocation of water.

Other significant programs administered by the Authority include:

- The Local Transportation Infrastructure Projects Program which provides for grants and low-cost financial assistance for local governments transportation projects which are not eligible for federal funding and funding for which have not been set by the existing Local Government Road Fund.
- The Economic Development Program provides comprehensive financing tools to stimulate economic development projects statewide.
- The New Markets Tax Credit Program acts as managing partner in Finance New Mexico LLC, a subsidiary for-profit company which received an allocation of federal tax credits under the New Markets Tax Credit Program.
- The Primary Care Capital Program is a revolving loan program which provides financial assistance to rural primary care health clinics for infrastructure, construction and capital equipment purchases. These loans provide for a 20 percent annual loan forgiveness if the borrower agrees to a contract-for-services to provide medical care free or at reduced prices to sick and indigent clients.
- The Water and Wastewater Project Grant Program provides grant funding for water and wastewater system projects authorized by legislation.
- The Local Government Planning Grant Program provides grants to qualified entities on a per project basis for water and wastewater related studies, long-term water management plans and economic development plans.
- The State Capital Improvement Financing Program accounts for the issuance of revenue bonds the proceeds of which were used to finance capital improvements to a state facility located adjacent to the State Capitol.
- The UNM Health Sciences Program administers the financing of several capital projects for UNM Health Sciences Center. The Authority issued bonds, secured by authorized distributions of cigarette excise taxes, for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center.
- The Worker`s Compensation Financing Program accounts for the issuance of revenue bonds used to finance the planning, designing, constructing, equipping and furnishing of a state office building for the Workers’ Compensation Administration.

Activities for all the programs administered by the Authority are reported as supplemental schedules in these financial statements.

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 Act. 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 Act does provide for legislative oversight by a committee to be appointed by the Legislative Council Service according to its policies.

2) Summary of Significant Accounting Policies

Accounting Principles
The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and funds. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Accounting.*

Basis of Presentation
The financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting. All of the Authority's activities, except those in which the Authority acts as an agent, are reported as an enterprise fund. Enterprise funds are used for activities for which a fee is charged to external users for goods and services.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing financial services in connection with on-going operations. Primary operating revenues includes financing income and fees charged to program borrowers. Operating expenses include interest expense, program support as well as funds granted to others in the form of loan forgiveness and other subsidies to governmental entities.

Nonoperating items consist primarily of governmental gross receipts and other tax distributions reported as appropriations, grant revenue, and transfers-out for excess distributions and reversions of prior year appropriated revenue.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. When restricted resources meet the criteria to be available for use and unrestricted resources are also available, it is the Authority's policy to use restricted resources first. Expenses are recorded when they are incurred. Expenses charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources.

Agency Funds

Agency Funds are used to report resources held by the Authority in a purely custodial capacity. These funds result from transactions associated with the Authority acting as fiscal agent for the New Mexico Department of Transportation (the "Department") on several of the Department's bond transactions. The amounts reported as agency funds do not belong to the Authority and are held in separate accounts on the Authority's books in the name of the Department. Accordingly, all assets held and reported in the Agency Fund are offset by a corresponding liability.

Cash, Cash Equivalents, and Investments

The Authority considers all highly liquid financial instruments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash on deposit with the Bank of Albuquerque, Wells Fargo Bank and Bank of New York Mellon acting as bond trustee. Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment are invested in certain allowable securities. All investments are stated at fair value.

Accounts Receivable

Accounts receivable consists of payments due from governmental entities, administrative fees due from projects, and other receivables arising from the normal course of operations. A reserve for uncollectible accounts is established based on management's estimates based on factors including payment history and economic factors.

Loans Receivable

Loans are carried at amounts advanced, net of collections and reserves for loan losses, if any. Loans that become past due as to principal and interest are evaluated for collectability. Generally, loans are not placed on nonaccrual status because they are insured guaranteed, or collateralized.

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.

Intergovernmental Receivables

Intergovernmental receivables consist of amounts due from the State based on legislated appropriation of specified taxes for repayment of certain bonds issued by the Authority on behalf of state entities. The related statute directs the Authority to issue bonds and make proceeds available to specified state entities to fund various projects. The statute appropriates a portion of existing taxes or fees to fund the payment of the related bonds. No allowance has been established, as all such receivables are considered collectable.

Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives. Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays individually exceeding $5,000 that significantly extend the useful life of an asset are capitalized.

Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

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

Bond Discounts, Premiums, Issuance Costs, and Deferred Costs

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

Compensated Absences

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

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.

Undisbursed Loan Proceeds

Program funds to be provided represent loan amounts awaiting disbursement to loan recipients. Funds are not automatically disbursed in their entirety when a loan closes. Proceeds are disbursed as the related project costs are incurred. The accounts, in the majority, represent loans of the PPRF program.

Net Assets

Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted, based on the following:

Investment in capital assets (*net of related debt*) is intended to reflect the portion of net assets which are associated with 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 net assets 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 net assets represent net assets not otherwise classified as invested in capital assets or restricted net assets.

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.

Use of Estimates

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

Budget

The Authority's budget represents a financial plan, not a legal constraint, therefore, budgetary comparison information is not presented in the financial statements or as required supplementary information.

3) Cash and Cash Equivalents and Investments

The Authority follows GASB No. 40, *Deposit and Investment Risk Disclosures*. This statement requires the disclosure of applicable interest rate, credit, custodial credit, concentration of credit and foreign currency risks.

Investments conform to the provisions of the Statements of Investment Policies, Objectives and Guidelines adopted by the Board on March 26, 2008. The investment policy applies to all of the Authority's funds; including funds the Authority may manage for others, except for those funds where trust indentures, bond resolutions, or other documents or agreements control the investment of funds. This policy is the Authority master investment policy and may be amended or supplemented as applied to specific categories of funds by adoption of addenda by the Board applicable to specific categories of the Authority funds.

Except where prohibited by statute, trust indenture, or other controlling authority, the Authority consolidates cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income is allocated to the various funds based on their respective participation. The primary objectives, in order of priority, of investment activity shall be safety, liquidity and yield.

Investments shall be undertaken in a manner that seeks to ensure the preservation and principal in the overall portfolio while mitigating credit risk and interest rate risk.

Credit Risk

The Authority minimizes credit risk (the risk of loss due to the failure of securities issuer or backer) by limiting investments, prequalifying financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

Interest Rate Risk

The Authority minimizes interest rate risk (the risk that the market value of securities in the portfolio will decline due to changes in market interest rates) by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market prior to maturity and by investing operating funds primarily in short-term securities limiting the average maturity of the portfolio.

Permitted Investments

As provided in Sections 6-21-6 and 6-21-2 of the Act, money pledged for or securing payment of bonds issued by the Authority shall be deposited and invested as provided in the bond resolution, trust indenture or other instrument under which the bonds were issued. The following table identifies the investment types permitted by the investment policy:

	Description	Maximum Percentage of Authority Funds [1]
A	Direct and general U.S. Government Obligations (Treasury Bills, Treasury Notes, Treasury Bonds)	100%
B	U.S. Government Agencies (any federal agency or instrumentality notes, bonds, debentures, with implicit guarantee of the United States of America)	75%
C	SEC-registered money market funds with total assets at time of deposit in excess of $100,000,000[2]	100%
E	Certificates of deposits and bank deposits[3]	20%
F	Commercial paper issued by corporations organized and operating on the United States and rated A1 P1 or equivalent by two or more rating services.	10%
G	Bonds or notes issued by any municipality, county or school district of the State	10%
H	Overnight repurchase agreements[4]	25%
I	Investment contracts (guaranteed investment contracts (GIC's) and flexible repurchase agreements)[4]	N/A
J	State Treasurer's Short-term Investment Fund	50%

[1] Limits do not apply to cash invested by trustee per bond indenture.

[2] Money markets must be rated AAA by Standards & Poor or Aaa by Moody and in compliance with the diversification, quality and maturity requirements 2a-7 of the U.S. Securities and Exchange Commission applicable to money markets with no sales load or deferred sales charge.

[3] Interest bearing certificates of deposit or bank deposits must be in banks having a branch location in New Mexico, and all principal and interest must be fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in A) and B) above, registered in the name of the Authority and held by a third party safe-keeping agent, or collateralized as required by 6.10.16 NMSA at 102% of the value of the deposit that is not FDIC insured.

[4] GIC and repurchase agreements investments must be fully secured by obligations described in A) and B) above with all collateral held by an independent third party safekeeping agent.

Investment of Bond Proceeds

All or any portion of the proceeds of bonds or other obligations of the Authority may be invested in a GIC or flexible repurchase agreement without regard to the investment allocation ranges set forth in the investment policy, if the GIC or repurchase agreement provides for disbursement upon request of the Authority in amounts necessary to meet expense requirements for the bonds or other obligations. Such investment of bond proceeds shall be subject to the issuer credit ratings and collateralization requirements, if any.

Cash and equivalents at June 30, 2011 were as follows:

Description	Balance at June 30, 2011	Rated	Percentage of Authority Funds [1]
Primary Care Capital Care Capital funds held with the State Treasurer Fund Investment Pool	$ 243,212	N/A	<1%
Bank deposits, collateralized, at the Bank of Albuquerque in the name of the State Treasurer	281,096	N/A	<1%
Wells Fargo deposit account	239,966	N/A	<1%
Wells Fargo Repurchase agreement - fully secured[2]	1,725,452	N/A	<1%
Government Money Market Funds	191,675,471	AAA	58%
U.S. Treasury notes	20,038,300	AAA	6%
Cash invested by trustee per bond indenture	40,620,953[3]	N/A	N/A
Total cash and equivalents	$ 254,824,450		
Cash held in agency fund	$ 155,805,463[4]		

[1] Limits do not apply to cash invested by trustee per bond indenture.

[2] Wells Fargo account FDIC insured for $250,000. Remaining $1,715,418 is secured by a pledge of Agency securities at a value at June 30, 2011 of $1,759,961 in the Authority's name.

[3] As provided in Sections 6-21-6 and 6-21-2 of the Act, money pledged for or securing payment of bonds issued by the Authority is deposited and invested as provided in the bond resolution, trust indenture or other instrument under which the bonds were issued.

[4] All cash held as agent by the Authority is fully collateralized by securities held in the name of the Authority.

Maturity Restrictions

It is the policy of the Authority to diversify investment maturities based on cash flow requirements. Unless matched to a specific cash flow, the Authority will invest in securities maturing five years or less from date of purchase.

Investments at June 30, 2011 are comprised of the following:

Description	Fair Value at June 30, 2011	Average Years to Maturity	Percentage of Authority Funds [1]
U.S. Treasury notes	$ 104,110,836	.79	31%
Federal Home Loan Mortgage Corporation bonds	10,051,300	1.745	3%
Federal National Mortgage Corporation bonds	5,027,750	2.995	2%
Total investments	$ 119,189,886		

4) Loans Receivable

Loans receivable activity for the year ended June 30, 2011 was as follows:

Program Description	Term (Years)	Rates	2010	Additions	Payments	2011
Public Projects Revolving Loan Fund	1 to 30	0% to 6%	$ 1,177,178,032	$ 201,505,803	$ 235,314,743	$ 1,143,369,092
Drinking Water State Revolving Loans	1 to 30	0% to 4%	60,230,182	5,227,754	2,795,352	62,662,584
Drinking Water State Revolving Loans-ARRA	1 to 20	1%	149,250	2,919,170	20,883	3,047,537
Primary Care Capital Fund Loans	10 to 20	3%	5,563,586	-	818,834	4,744,752
Water Projects Fund Loan Grants	10 to 20	0%	6,501,166	3,219,378	1,001,729	8,718,815
Smart Money Participation Loans	3 to 20	2% to 5%.	3,547,224	-	99,902	3,447,322
Behavioral Health Care Loan	15	3%	304,248	-	34,206	270,042
Cigarette Tax - Behavioral Health Care Capital Loans	15	3%	541,087	-	32,295	508,792
Pooled Equipment Certificates of Participation Loans	5 to 20	4% to 6.4%	197,000	-	28,000	169,000
Child Care Revolving Loans	8	3%	43,404	-	5,644	37,760
			1,254,255,179	212,872,105	240,151,588	1,226,975,696
Less allowance for loan losses			(2,132,950)	(2,458,456)	-	(4,591,406)
Totals			$ 1,252,122,229	$ 210,413,649	$ 240,151,588	$ 1,222,384,290

[1] Limits do not apply to cash invested by trustee per bond indenture.

The following is a summary of scheduled payments to be collected on loans receivable as of June 30, 2011.

	Principal	Interest	Total
Fiscal year ending June 30			
2012	$ 83,868,725	$ 46,089,658	$ 129,958,383
2013	88,129,956	43,875,326	132,005,282
2014	86,590,827	41,223,627	127,814,454
2015	85,032,909	38,569,295	123,602,204
2016	85,510,717	35,803,141	121,313,858
2017 – 2021	336,981,531	138,936,769	475,918,300
2022 – 2026	247,135,333	82,510,352	329,645,685
2027 – 2031	137,642,548	35,342,737	172,985,285
2032 – 2036	68,668,655	11,456,641	80,125,296
2037 – 2041	7,414,495	499,618	7,914,113
Subtotals	1,226,975,696	$ 474,307,164	$ 1,701,282,860
Less allowance for loan losses	(4,591,406)		
Loans receivable net	$ 1,222,384,290		

5) Intergovernmental Receivables

The Authority has agreements with various state entities relating to the issuance of bonds. Pursuant to the underlying legislation and resolutions, the bond proceeds financed various state projects. Pursuant to the legislation, the debt service on these bonds is payable solely from revenues from the State and state entities. Intergovernmental receivables represent amounts due to the Authority under these agreements.

Intergovernmental receivables activity during the year ended June 30, 2011 was as follows:

State Entity	Revenue Pledge	Rates	Maturity	2010	Payments	2011	Due in One Year
Administrative Office of the Courts	Court Facilities fees	3.05% to 5.00%	6/15/2025	$ 46,950,000	$ 2,180,000	$ 44,770,000	$ 2,285,000
University of New Mexico Health Sciences Center	Cigarette excise tax	3.88% to 5.00%	6/15/2025	23,630,000	-	23,630,000	-
General Services Department - State of New Mexico	State Gross Receipts tax	4.25% to 5.00%	6/1/2036	46,715,000	745,000	45,970,000	780,000
University of New Mexico Health Sciences Center	Cigarette excise tax	2.25% to5.00%	4/1/2019	17,405,000	2,350,000	15,055,000	2,190,000
University of New Mexico Health Sciences Center	Cigarette excise tax	2.13% to 3.94%	4/1/2019	6,947,525	796,285	6,151,240	785,435
Worker's Compensation Administration	Worker's Compensation administrative fee	5.35% to 5.60%	9/1/2016	2,080,000	250,000	1,830,000	265,000
General Services Department - State of New Mexico	Income from Land Grant Permanent Fund	7.00%	3/15/2015	4,115,000	710,000	3,405,000	760,000
			Totals	$ 147,842,525	$ 7,031,285	$ 140,811,240	$ 7,065,435

The following is a summary of scheduled payments to be collected on the receivables from state entities as of June 30, 2011:

	Principal	Interest	Total
Fiscal year ending June 30			
2012	$ 7,065,435	$ 6,875,931	$ 13,941,366
2013	7,191,962	6,550,955	13,742,917
2014	7,420,628	6,191,610	13,612,238
2015	7,656,438	5,820,394	13,476,832
2016	7,214,184	5,453,302	12,667,486
2017 – 2021	38,282,593	21,996,590	60,279,183
2022 – 2026	38,380,000	11,922,100	50,302,100
2027 – 2031	12,085,000	5,727,000	17,812,000
2032 – 2036	15,515,000	2,404,750	17,919,750
Intergovernmental receivables	$ 140,811,240	$ 72,942,632	$ 213,753,872

6) Capital Assets

A summary of changes in capital assets follows:

	Balance at June 30, 2010	Increases	Decreases	**Balance at June 30, 2011**
Depreciable assets				
Furniture and fixtures	$ 204,320	$ 23,148	$ -	**$ 227,468**
Computer hardware and software	834,276	774	-	**835,050**
Equipment	49,117	-	-	**49,117**
Leasehold improvement	48,490	-	-	**48,490**
	1,136,203	23,922	-	**1,160,125**
Accumulated depreciation				
Furniture and fixtures	(198,803)	(9,555)	-	**(208,358)**
Computer hardware and software	(566,293)	(100,456)	-	**(666,749)**
Equipment	(49,117)	-	-	**(49,117)**
Leasehold improvement	(48,490)	-	-	**(48,490)**
	(862,703)	(110,011)	-	**(972,714)**
Net total	$ 273,500	$ (86,089)	$ -	**$ 187,411**

Depreciation expense for the fiscal year was $110,011.

7) Bonds Payable

Bonds have been issued to provide financing for various Authority programs and are collateralized as follows:

- Loan Agreements and securities executed and delivered by governmental units in consideration for the financing of all or a portion of their respective projects by the Authority.
- Amounts held in the Agreement Reserve Accounts.
- Additional pledged loans.
- Revenues received by the Authority from the allocation of the Authority's portion of the Governmental Gross Receipts tax.
- Revenues pledged through legislation as security for the payment of principal and interest on bonds. These revenues include Court Facilities Fees, Cigarette Excise Tax, State Gross Receipts Tax, Workers' Compensation Fees and Income from Land Grant Permanent Fund.

Bonds payable consist of the following at June 30, 2011:

Bond Series	Rate	Maturities	Original Amount	Outstanding Amount
Public Project Revolving Fund Revenue Bonds - Senior Lien Debt				
2002 A	4.400% to 5.000%	June 1, 2012 to June 1, 2023	$ 55,610,000	$ 10,255,000
2003 A	3.550% to 4.750%	June 1, 2012 to June 1, 2032	39,945,000	15,786,000
2003 B	3.500% to 5.000%	June 1, 2012 to June 1, 2021	25,370,000	12,495,000
2004 A-1	3.050% to 4.625%	June 1, 2012 to June 1, 2031	43,400,000	6,310,000
2004 A-2	4.625% to 5.875%	June 1, 2012 to June 1, 2027	14,990,000	11,590,000
2004 B-1	4.250% to 5.500%	June 1, 2012 to June 1, 2033	49,540,000	27,670,000
2004 B-2	5.630% to 6.010%	June 1, 2012 to June 1, 2018	1,405,000	835,000
2004 C	3.500% to 5.250%	June 1, 2012 to June 1, 2024	168,890,000	117,965,000
2005 A	3.750% to 5.000%	June 1, 2012 to June 1, 2025	19,015,000	10,815,000
2005 B	3.500% to 4.500%	June 1, 2012 to June 1, 2020	13,500,000	8,035,000
2006 B	4.250% to 5.000%	June 1, 2012 to June 1, 2036	38,260,000	31,825,000
2006 D	4.250% to 5.000%	June 1, 2012 to June 1, 2036	56,400,000	49,005,000
2007 E	4.250% to 5.000%	June 1, 2012 to June 1, 2032	49,560,000	49,560,000
2008 A	3.000% to 5.000%	June 1, 2012 to June 1, 2038	144,475,000	144,475,000
2008 B	4.000% to 5.250%	June 1, 2012 to June 1, 2035	36,545,000	30,930,000
2008 C	4.250% to 6.000%	June 1, 2012 to June 1, 2033	29,130,000	26,170,000
2009 A	2.250% to 5.000%	June 1, 2012 to June 1, 2038	17,685,000	16,840,000
2009 B	2.750% to 5.500%	June 1, 2012 to June 1, 2039	30,115,000	28,085,000
2009 C	2.500% to 5.250%	June 1, 2012 to June 1, 2029	55,810,000	51,880,000
2009 D-1	3.000% to 4.500%	June 1, 2012 to June 1, 2030	13,570,000	12,355,000
2009 D-2	2.320% to 6.070%	June 1, 2012 to June 1, 2036	38,845,000	38,230,000
2009 E	3.000% to 4.500%	June 1, 2012 to June 1, 2019	35,115,000	29,345,000
2010 A-1	3.000% to 4.500%	June 1, 2012 to June 1, 2034	15,170,000	12,425,000
2010 A-2	3.777% to 6.406%	June 1, 2016 to June 1, 2039	13,795,000	13,795,000
2010 B-1	2.000% to 5.000%	June 1, 2012 to June 1, 2035	38,610,000	37,080,000
2010 B-2	2.236% to 6.230%	June 1, 2013 to June 1, 2035	17,600,000	17,600,000
2011 A	2.000% to 4.000%	June 1, 2012 to June 1, 2016	15,375,000	15,375,000
			1,077,725,000	826,731,000
Public Project Revolving Fund Revenue Bonds - Subordinate Lien Debt				
2005 C	3.625% to 5.000%	June 15, 2011 to June 15, 2025	50,395,000	44,770,000
2005 E	3.875% to 5.000%	June 15, 2013 to June 15, 2025	23,630,000	23,630,000
2005 F	4.000% to 5.000%	June 15, 2011 to June 15, 2025	19,640,000	19,195,000
2006 A	4.000% to 5.000%	June 15, 2011 to June 15, 2035	47,240,000	46,265,000
2006 C	4.000% to 5.000%	June 15, 2011 to June 15, 2026	34,295,000	32,770,000
2007 A	4.000% to 5.000%	June 15, 2011 to June 15, 2027	27,930,000	25,645,000
2007 B	4.250% to 5.000%	June 15, 2011 to June 15, 2034	32,140,000	30,140,000
2007 C	4.250% to 5.250%	June 15, 2011 to June 15, 2027	120,190,000	115,785,000
			355,460,000	338,200,000
		Subtotal - PPRF Bonds	1,433,185,000	1,164,931,000

Pooled Equipment Certificates of Participants				
1995 A	6.30%	October 1, 2015	3,432,000	130,000
1996 A	5.80%	April 1, 2016	1,458,000	39,000
			4,890,000	169,000
State Capitol Building Improvement Revenue Bonds				
1996	5.50% to 5.60%	Sept. 1, 2011 to Sept. 1, 2016	4,310,000	1,830,000
State Capitol Building Improvement Revenue Bonds				
1999	7.00%	Sept. 15, 2011 to Mar. 15, 2015	3,405,000	3,405,000
Cigarette Tax Revenue Bonds - UNM Health Sciences Center Project				
2004A	4.0% to 5.0%	April 1, 2012 to April 1, 2019	15,055,000	15,055,000
Cigarette Tax Revenue Bonds - Behavioral Health Projects				
2006	5.51%	May 1, 2012 to May 1, 2026	1,875,000	1,875,000
Total bonds outstanding			$ 1,462,720,000	1,187,265,000
Add net unamortized premium				37,290,457
Less deferred charge on refunding				(1,513,415)
Total bonds payable, net				1,223,042,042
Less current portion of bonds payable				(72,569,000)
Noncurrent portion of bonds payable				$ 1,150,473,042

Maturities of bonds payable and interest are as follows:

	Principal	Interest	Total
Fiscal year ending June 30			
2012	$ 72,569,000	$ 56,715,142	$ 129,284,142
2013	76,893,000	53,714,522	130,607,522
2014	76,753,000	50,426,549	127,179,549
2015	77,835,000	47,055,063	124,890,063
2016	76,929,000	43,575,832	120,504,832
2017 – 2021	331,821,000	167,799,010	499,620,010
2022 – 2026	261,370,000	92,131,174	353,501,174
2027 – 2031	124,475,000	40,602,867	165,077,867
2032 – 2036	81,805,000	13,854,780	95,659,780
2037 – 2040	6,815,000	579,455	7,394,455
	1,187,265,000	$ 566,454,394	$ 1,753,719,394
Add unamortized premium	37,290,457		
Less deferred charge on refunding	(1,513,415)		
Bonds payable, net	$ 1,223,042,042		

The bonds payable activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance	Due in One Year
Bonds payable	$ 1,196,530,000	$ 71,585,000	$ (80,850,000)	$ 1,187,265,000	$ 72,569,000
Add unamortized premium	38,811,216	839,770	(2,360,530)	37,290,456	-
Less deferred charge on refunding	(1,620,826)	-	107,412	(1,513,414)	-
	$ 1,233,720,390	$ 72,424,770	$ (83,103,118)	$ 1,223,042,042	$ 72,569,000

8) Advanced Loan Payments

Advanced loan payments represent the amounts received from loan recipients which have not been applied as a payment against their loan as well as debt service reserve accounts funded from the loan proceeds. The Authority applies loan payments semi-annually, therefore, any payments received prior to being applied to the loan are held in an account which earns interest and the interest is credited to the borrower. These funds are held by the trustee and in accounts at the State Treasurer's office. The balance of advanced loan payments was $76,070,383 at June 30, 2011.

9) Line Of Credit

The Authority maintains a credit facility with the Bank of America for the PPRF which provides for a borrowing limit of up to $75,000,000. The terms of the credit facility require payment in full of any outstanding balance from the proceeds of the next PPRF bond issue. Interest is due monthly on the outstanding balance, and accrues at 65% of U.S. dollar monthly LIBOR plus 90 basis points. The LIBOR rate at June 30, 2011, was .186. The Authority pays a 20 basis point fee on the unused portion of the facility. No balances were outstanding under the line of credit at June 30, 2011.

10) Operating Lease Commitment

The Authority is committed under various lease agreements for office space, a vehicle, and office equipment. These leases are classified as operating leases. Lease expenditures for the year ended June 30, 2011, were $398,181. Future minimum lease payments are as follows:

Fiscal year ending June 30		
2012	$	401,489
2013		401,489
2014		400,891
2015		394,314
2016		276,906
Total	$	1,875,089

11) Retirement Plans

The Authority's retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make an additional, voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee over five years. The contributions are invested in various mutual funds selected by the employee. The Authority's contributions for this retirement plan were $461,193 for the year ended June 30, 2011. Substantially all full-time employees participate in this plan.

The Authority maintains a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code for its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2011 were $25,235.

12) Compensated Absences

The following changes occurred in the compensated absences liabilities:

Balance at June 30, 2010	$	210,339
Additions		97,292
Deletions		(11,637)
Balance at June 30, 2011	$	295,994
Due within one year	$	295,944

13) Agency Transactions

The Authority was authorized in 2003 to issue $1.585 billion of bonds as agent for the New Mexico Department of Transportation (NMDOT). Approximately $1.7 billion of such bonds are outstanding at June 30, 2011.

Debt service for the bonds is payable solely from certain revenues of the Department of Transportation. In the opinion of legal counsel, there is no claim that could be asserted against the Authority's assets for payment of debt service on the bonds; therefore, these bonds are not reflected in the Authority's financial statements. The Authority receives an annual fee from the Department of Transportation of 12.5 basis points of the outstanding bonds for management of the bond issues.

14) Contingencies

Litigation
In the normal course of operations, the Authority is involved in certain litigation and arbitration proceedings involving former employee complaints and subcontractor claims. Management and legal counsel believe the outcomes will not have a materially adverse impact on the financial position of the Authority.

Loan Prepayment and Bond Call Provisions
Certain loans included in loans receivable contain provisions that allow for prepayment of the loan after one year whereas the related bonds used to fund the loans cannot be called for up to 10 years. In the event of a loan prepayment prior to the tenth year, the Authority's bond indentures require the substitution of a loan with similar cash flow characteristics or the defeasance of the related bond.

If interest rates at the time of prepayment are lower than the rates on the related bonds, as is currently the case, both loan substitution and defeasance will result in the Authority earning less on the substituted loan or the defeasance escrow than it will pay on the related bond, resulting in a negative cash flow. The Authority has other funding sources available to pay the shortfall, including the proceeds of the loan payoff, reserve funds, and operating cash. Management does not believe this condition will have a material adverse impact on the financial statements. The variance in prepayment and call periods was eliminated through a Board resolution in 2008 so that this condition is eliminated by 2018. The loans containing the shortened call provision total approximately $593 million and the related bonds total approximately $473 million at June 30, 2011. During FY 2011, loans totaling $111.2 million have exercised this call provision, with another $40.7 in loans exercising this call provision subsequent to year-end.

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in the State of New Mexico self-insurance program (Risk Management Program). Under this program, the Authority pays an annual premium to the State for the following types of insurance coverage:

- Workers' compensation insurance
- General liability insurance
- Civil rights
- Blanket property insurance
- Boiler and machinery insurance
- Auto physical damage insurance
- Crime insurance

The Authority also carries commercial insurance to cover losses to which it may be exposed related to their leased office space.

During the year, there were no significant reductions in commercial insurance coverage. For the past five years, no insurance settlements exceeded commercial insurance coverage.

15) Related Party Transactions

The Authority has issued bonds or purchased securities for several other state entities to finance the construction of certain capital projects. Representatives of two of these entities (the Secretary of the New Mexico Department of Finance and Administration and the Secretary of the New Mexico Department of Energy, Minerals and Natural Resources) are members of the Authority's board of directors.

16) Subsequent Events

The following is a summary of loans and bonds that have closed since June 30, 2011:

- Closed 30 loans totaling $103,120,547 in the Public Project Revolving Fund program.
- Issued two Public Project Revolving Fund revenue bonds totaling $112,896,043
- Closed two loans for the Drinking Water State Revolving Fund totaling $623,138
- Closed 24 loan/grant projects totaling $32,193,030 out of the Water Projects Fund.

Supplementary Schedules

	PPRF	GRIP	Behavioral Health	Child Care
Assets				
Current assets				
Cash and equivalents				
Unrestricted	$ 97,054,346	$ 372,987	$ 310,593	$ -
Restricted	96,368,542	-	11,594	13,882
Interest receivable	8,501,055	-	1,238	-
Grants and other receivable	2,250,000	1,409,581	-	-
Due from other funds	5,654,785	-	-	-
Prepaid rent	19,500	-	-	-
Administrative fees receivable	308,896	68,462	113	-
Investment in Finance New Mexico	-	-	-	-
Notes receivable	7,364,017	-	-	-
Loans receivable, net of allowance	79,668,554	-	35,234	5,729
Intergovernmental receivables	3,065,000	-	-	-
Total current assets	300,254,695	1,851,030	358,772	19,611
Noncurrent assets				
Restricted investments	119,189,886			
Loans receivable, net of allowance	1,060,723,061	-	234,808	32,031
Intergovernmental receivables	111,305,000	-	-	-
Capital assets, net of accumulated depreciation	187,411	-	-	-
Deferred cost, net of accumulated amortization	9,984,023	-	-	-
Total assets	$ 1,601,644,076	$ 1,851,030	$ 593,580	$ 51,642
Liabilities				
Current liabilities				
Accounts payable	$ 223,096	$ 13,611	$ -	$ -
Accrued payroll	110,991	-	-	-
Compensated absences	295,994	-	-	-
Due to other funds	1,125,295	1,037,149	8,457	106,780
Funds held for others	461,630	-	-	-
Bond interest payable	3,950,701	-	-	-
Undisbursed loan proceeds	74,472,265	-		62,092
Advanced loan payments	75,807,225	-	11,594	-
Notes payable	1,212,777	-	-	-
Bonds payable, net	69,229,000	-	-	-
Other liabilities	1,480,267	-	-	-
Total current liabilities	228,369,241	1,050,760	20,051	168,872
Noncurrent liabilities				
Bonds payable	1,130,420,242	-	-	-
Total liabilities	1,358,789,483	1,050,760	20,051	168,872
Net Assets				
Invested in capital assets	187,411	-	-	-
Restricted for debt service	27,721,370	-	-	-
Restricted for program commitments	117,891,466	427,283	262,936	-
Unrestricted	97,054,346	372,987	310,593	(117,230)
Total net assets	242,854,593	800,270	573,529	(117,230)
Total liabilities and net assets	$ 1,601,644,076	$ 1,851,030	$ 593,580	$ 51,642

Cigarette Tax	DWLRF	Primary Care	Local Road Program
$ -	$ 21,095,526	$ 14,720	$ -
2,115,899	273,012	274,526	89,760
1,272	160,400	5,739	-
-	-	-	-
-	-	-	-
-	-	-	-
-	21,335	-	-
-	-	-	-
-	-	-	-
33,256	3,264,276	522,594	-
-	-	-	-
2,150,427	24,814,549	817,579	89,760
475,536	62,445,845	4,222,158	-
-	-	-	-
-	-	-	-
-	-	-	-
$ 2,625,963	$ 87,260,394	$ 5,039,737	$ 89,760
$ -	$ 2,711	$ -	$ -
-	-	-	-
-	-	-	-
-	227,753	285,468	2,190
-	3,932	-	-
17,219	-	-	-
-	-	-	-
-	235,353	14,692	-
-	-	-	-
125,000	-	-	-
-	921,808	-	-
142,219	1,391,557	300,160	2,190
1,750,000	-	-	-
1,892,219	1,391,557	300,160	2,190
-	-	-	-
-	-	-	-
733,744	64,773,311	4,724,857	87,570
-	21,095,526	14,720	-
733,744	85,868,837	4,739,577	87,570
$ 2,625,963	$ 87,260,394	$ 5,039,737	$ 89,760

	New Market Tax Credits	Energy Efficiency	UNM Health Sciences	Worker's Comp Financing Program
Assets				
Current assets				
Cash and equivalents				
Unrestricted	$ 75,474	$ -	$ 45,074	$ -
Restricted	-	-	824,998	1,030,055
Interest receivable	-	-	229,043	34,026
Grants and other receivable	-	-	-	-
Due from other funds	-	-	-	-
Prepaid rent	-	-	-	-
Administrative fees receivable	1,550	-	-	-
Investment in Finance New Mexico	99,010	-	-	-
Notes receivable	-	-	-	-
Loans receivable, net of allowance	-	-	-	-
Intergovernmental receivables	-	-	2,975,435	265,000
Total current assets	176,034	-	4,074,550	1,329,081
Noncurrent assets				
Restricted investments				
Loans receivable, net of allowance	-	-	-	-
Intergovernmental receivables	-	-	18,230,805	1,565,000
Capital assets, net of accumulated depreciation	-	-	-	-
Deferred cost, net of accumulated amortization	-	-	560,182	48,329
Total assets	$ 176,034	$ -	$ 22,865,537	$ 2,942,410
Liabilities				
Current liabilities				
Accounts payable	$ 23,620	$ -	$ -	$ -
Accrued payroll	-	-	-	-
Compensated absences	-	-	-	-
Due to other funds	289,991	39,288	-	-
Funds held for others	75,000	-	-	-
Bond interest payable	-	-	229,043	34,026
Undisbursed loan proceeds	-	-	-	-
Advanced loan payments	-	-	-	-
Notes payable	-	-	6,151,240	-
Bonds payable, net	-	-	2,190,000	265,000
Other liabilities	-	-	(239,529)	-
Total current liabilities	388,611	39,288	8,330,754	299,026
Noncurrent liabilities				
Bonds payable	-	-	13,923,800	1,565,000
Total liabilities	388,611	39,288	22,254,554	1,864,026
Net Assets				
Invested in capital assets	-	-	-	-
Restricted for debt service	-	-	-	-
Restricted for program commitments		-	565,909	1,078,384
Unrestricted	(212,577)	(39,288)	45,074	-
Total net assets	(212,577)	(39,288)	610,983	1,078,384
Total liabilities and net assets	$ 176,034	$ -	$ 22,865,537	$ 2,942,410

State Capitol Imprv Financing	State Office Building Bonding Program	Equipment Loan Program	Water Trust Board
$ -	$ -	$ -	$ 201,508
407,455	6,731,838	1,519	12,985,680
69,519	-	2,613	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	2,308
-	-	-	-
-	-	-	-
-	-	30,000	309,082
760,000	-	-	-
1,236,974	6,731,838	34,132	13,498,578
-	-	139,000	8,409,733
2,645,000	-	-	-
-	-	-	-
21,533	-	-	-
$ 3,903,507	$ 6,731,838	$ 173,132	$ 21,908,311
$ -	$ -	$ -	$ 17,141
-	-	-	-
-	-	-	-
-	-	-	1,461,545
80,263	-	-	-
69,519	-	2,613	-
-	-	-	-
-	-	1,519	-
-	-	-	-
760,000	-	-	-
-	-	-	-
909,782	-	4,132	1,478,686
2,645,000	-	169,000	-
3,554,782	-	173,132	1,478,686
-	-	-	-
-	-	-	-
348,725	6,731,838	-	20,228,117
-	-	-	201,508
348,725	6,731,838	-	20,429,625
$ 3,903,507	$ 6,731,838	$ 173,132	$ 21,908,311

	Water/Waste Water		Emergency Drought Water Program		Local Government Planning Fund		Economic Development Program
Assets								
Current assets								
Cash and equivalents								
Unrestricted	$	-	$	44	$	305,107	$	-
Restricted		768,577		-		36,385		1,706,264
Interest receivable		-		-		-		72,575
Grants and other receivable		-		-		-		-
Due from other funds		-		-		-		-
Prepaid rent		-		-		-		-
Administrative fees receivable		-		-		-		-
Investment in Finance New Mexico		-		-		-		-
Notes receivable		-		-		-		-
Loans receivable, net of allowance		-		-		-		-
Intergovernmental receivables		-		-		-		-
Total current assets		768,577		44		341,492		1,778,839
Noncurrent assets								
Restricted investments								
Loans receivable, net of allowance		-		-		-		1,833,393
Intergovernmental receivables		-		-		-		-
Capital assets, net of accumulated depreciation		-		-		-		-
Deferred cost, net of accumulated amortization		-		-		-		-
Total assets	$	768,577	$	44	$	341,492	$	3,612,232
Liabilities								
Current liabilities								
Accounts payable	$	-	$	-	$	2,438	$	3,545
Accrued payroll		-		-		-		-
Compensated absences		-		-		-		-
Due to other funds		17,839		-		14,076		908,782
Funds held for others		-		-		-		-
Bond interest payable		-		-		-		-
Undisbursed loan proceeds		-		-		-		-
Advanced loan payments		-		-		-		-
Notes payable		-		-		-		-
Bonds payable, net		-		-		-		-
Other liabilities		-		-		-		-
Total current liabilities		17,839		-		16,514		912,327
Noncurrent liabilities								
Bonds payable		-		-		-		-
Total liabilities		17,839		-		16,514		912,327
Net Assets								
Invested in capital assets		-		-		-		-
Restricted for debt service		-		-		-		-
Restricted for program commitments		750,738		-		19,871		2,699,905
Unrestricted		-		44		305,107		-
Total net assets		750,738		44		324,978		2,699,905
Total liabilities and net assets	$	768,577	$	44	$	341,492	$	3,612,232

Local Transportation Program	BioMass Dairy	Intra Program Eliminations	Total
$ -	$ -	$ -	$ 119,475,379
9,676,212	2,032,873	-	135,349,071
-	-	-	9,077,480
-	-	-	3,659,581
-	-	(5,654,785)	-
-	-	-	19,500
-	-	-	402,664
-	-	-	99,010
-	-	(7,364,017)	-
-	-	-	83,868,725
-	-	-	7,065,435
9,676,212	2,032,873	(13,018,802)	359,016,845
			119,189,886
-	-	-	1,138,515,565
-	-	-	133,745,805
-	-	-	187,411
-	-	-	10,614,067
$ 9,676,212	$ 2,032,873	$ (13,018,802)	$ 1,761,269,579

$ -	$ -	$ -	$ 286,162
-	-	-	110,991
-	-	-	295,994
130,172	-	(5,654,785)	-
-	-	-	620,825
-	-	-	4,303,121
-	-	-	74,534,357
-	-	-	76,070,383
-	-	(7,364,017)	-
-	-	-	72,569,000
-	-	-	2,162,546
130,172	-	(13,018,802)	230,953,379
-	-	-	1,150,473,042
130,172	-	(13,018,802)	1,381,426,421
-	-	-	187,411
-	-	-	27,721,370
9,546,040	2,032,873	-	232,903,567
-	-	-	119,030,810
9,546,040	2,032,873	-	379,843,158
$ 9,676,212	$ 2,032,873	$ (13,018,802)	$ 1,761,269,579

	PPRF	GRIP	Behavioral Health	Child Care
Operating Revenues				
Administrative fees revenue	$ 1,873,887	$ 1,552,851	$ 746	$ -
Processing fee	1,261,007	-	-	-
Interest on loans	52,828,553	-	8,210	-
Interest on investments	384,701	15,899	815	1,347
Total operating revenues	56,348,148	1,568,750	9,771	1,347
Operating Expenses				
Grants to others	767,340	-	-	-
Bond issuance costs	610,222	-	-	-
Administrative fees	117,375	-	-	-
Professional services	1,279,285	324,135	-	5,347
Salaries and benefits	2,421,316	378,217	17,568	14,671
Other operating costs	888,923	94,723	-	3,678
Depreciation expense	110,011	-	-	-
Bond interest expense	55,170,397	-	3,669	-
Provision for loan losses	1,164,527	-	-	-
Interest expense	157,843	-	-	-
Total operating expenses	62,687,239	797,075	21,237	23,696
Net operating income (loss)	(6,339,091)	771,675	(11,466)	(22,349)
Nonoperating Revenues (Expenses)				
Appropriation revenue	26,909,639	-	-	-
Grant revenue	-	-	-	-
Inter-fund transfers	(773,243)	-	15,363	-
Transfers to the State of New Mexico	(1,922,330)	-	-	-
Reversions	-	(4,000,000)	-	-
Increase (decrease) in net assets	17,874,975	(3,228,325)	3,897	(22,349)
Net assets, beginning of period	224,979,618	4,028,595	569,632	(94,881)
Net assets, end of period	$ 242,854,593	$ 800,270	$ 573,529	$ (117,230)

Cigarette Tax	DWLRF	Primary Care	Local Road Program
$ -	$ 146,958	$ -	$ 1,596,699
-	-	-	-
15,959	1,002,205	129,239	-
1,890	40,127	5,193	10,783
17,849	1,189,290	134,432	1,607,482
-	8,952,218	-	1,274,234
-	-	-	-
-	-	-	-
-	144,339	281	-
-	364,007	37,114	5,441
9,613	82,871	141,099	1,269
-	-	-	-
109,033	-	-	-
-	-	-	-
-	-	-	-
118,646	9,543,435	178,494	1,280,944
(100,797)	(8,354,145)	(44,062)	326,538
-	16,167	-	-
-	15,924,673	-	-
219,818	(1,527)	-	-
-	-	-	-
-	-	(2,810,000)	(4,398,384)
119,021	7,585,168	(2,854,062)	(4,071,846)
614,723	78,283,669	7,593,639	4,159,416
$ 733,744	$ 85,868,837	$ 4,739,577	$ 87,570

	New Market Tax Credits	Energy Efficiency	UNM Health Sciences	Worker's Comp Financing Program
Operating Revenues				
Administrative fees revenue	$ -	$ -	$ -	$ -
Processing fee	344,766	-	-	-
Interest on loans	-	-	1,000,733	104,348
Interest on investments	489	-	2,178	7,759
Total operating revenues	345,255	-	1,002,911	112,107
Operating Expenses				
Grants to others	-	-	-	-
Bond issuance costs	-	-	72,282	9,354
Administrative fees	-	-	109,667	-
Professional services	155,436	-	-	-
Salaries and benefits	286,540	3,479	-	-
Other operating costs	91,220	695	-	642
Depreciation expense	-	-	-	-
Bond interest expense	-	-	645,431	104,348
Provision for loan losses	-	-	-	-
Interest expense	-	-	218,498	-
Total operating expenses	533,196	4,174	1,045,878	114,344
Net operating income (loss)	(187,941)	(4,174)	(42,967)	(2,237)
Nonoperating Revenues (Expenses)				
Appropriation revenue	-	-	3,029,570	877,698
Grant revenue	-	-	-	-
Inter-fund transfers	-	-	39,589	-
Transfers to the State of New Mexico	-	-	(2,904,488)	(1,181,331)
Reversions	-	-	-	-
Increase (decrease) in net assets	(187,941)	(4,174)	121,704	(305,870)
Net assets, beginning of period	(24,636)	(35,114)	489,279	1,384,254
Net assets, end of period	$ (212,577)	$ (39,288)	$ 610,983	$ 1,078,384

State Capitol Imprv Financing	State Office Building Bonding Program	Equipment Loan Program	Water Trust Board
$ -	$ -	$ -	$ 31,962
-	-	-	-
261,304	-	-	-
2,899	56,147	11,333	38,177
264,203	56,147	11,333	70,139
-	-	-	26,114,605
5,807	-	-	-
9,850	34,425	-	-
-	-	-	232,105
-	-	-	389,934
-	-	-	92,859
-	-	-	-
261,304	-	11,333	-
-	-	-	-
-	-	-	-
276,961	34,425	11,333	26,829,503
(12,758)	21,722	-	(26,759,364)
9,480	-	-	4,000,000
-	-	-	27,000,155
-	-	-	-
-	(60,906)	-	-
-	-	-	-
(3,278)	(39,184)	-	4,240,791
352,003	6,771,022	-	16,188,834
$ 348,725	$ 6,731,838	$ -	$ 20,429,625

	Water/Waste Water	Emergency Drought	Local Government Planning Fund	Economic Development Program
Operating Revenues				
Administrative fees revenue	$ -	$ -	$ -	$ -
Processing fee	-	-	-	-
Interest on loans	-	-	-	221,959
Interest on investments	9,650	820	1,773	18,081
Total operating revenues	9,650	820	1,773	240,040
Operating Expenses				
Grants to others	1,919,081	-	286,773	-
Bond issuance costs	-	-	-	-
Administrative fees	-	-	-	-
Professional services	10,922	-	28,108	26,046
Salaries and benefits	50,639	-	34,119	179,955
Other operating costs	10,453	-	7,594	50,816
Depreciation expense	-	-	-	-
Bond interest expense	-	-	-	-
Provision for loan losses	-	-	-	1,293,929
Interest expense	-	-	-	-
Total operating expenses	1,991,095	-	356,594	1,550,746
Net operating income (loss)	(1,981,445)	820	(354,821)	(1,310,706)
Nonoperating Revenues (Expenses)				
Appropriation revenue	-	-	-	-
Grant revenue	-	-	-	-
Inter-fund transfers	-	-	500,000	-
Transfers to the State of New Mexico	-	-	-	-
Reversions	(1,613,217)	(290,491)	-	(1,900,000)
Increase (decrease) in net assets	(3,594,662)	(289,671)	145,179	(3,210,706)
Net assets, beginning of period	4,345,400	289,715	179,799	5,910,611
Net assets, end of period	$ 750,738	$ 44	$ 324,978	$ 2,699,905

Local Transportation Program	BioMass Dairy	Total
$ -	$ -	$ 5,203,103
-	-	1,605,773
-	-	55,572,510
189,400	6,462	805,923
189,400	6,462	63,187,309
14,573,054	-	53,887,305
-	-	697,665
-	-	271,317
6,380	-	2,212,384
1,572	-	4,184,572
-	-	1,476,455
-	-	110,011
-	-	56,305,515
-	-	2,458,456
-	-	376,341
14,581,006	-	121,980,021
(14,391,606)	6,462	(58,792,712)
-	-	34,842,554
-	-	42,924,828
-	-	-
-	-	(6,069,055)
(3,400,000)	-	(18,412,092)
(17,791,606)	6,462	(5,506,477)
27,337,646	2,026,411	385,349,635
$ 9,546,040	$ 2,032,873	$ 379,843,158

	PPRF	GRIP	Behavioral Health	Child Care
Cash Flows From Operating Activities				
Cash paid for employee services	$ (2,421,316)	$ (378,217)	$ (17,568)	$ (14,671)
Cash paid to vendors for services	(709,217)	(418,858)	-	(27,867)
Intergovernmental payments received	2,180,000	-	-	-
Loans payments received	235,314,743	-	34,206	5,644
Loan payments funded	(201,505,803)	-	-	-
Grants awarded	(767,340)	-	-	-
Cash received from federal government for revolving loan funds	-	-	-	-
Interest income received	53,213,254	15,899	12,185	1,347
Administrative fees received	3,134,894	2,388,932	-	-
Net cash provided by (used in) operating activities	88,439,215	1,607,756	28,823	(35,547)
Cash Flow From Noncapital Financing Activities				
Reversions	-	(4,000,000)	-	-
Cash received from the State of New Mexico	26,909,639	-	-	-
Cash transfers to the State of New Mexico	(1,922,330)	-	-	-
Interfund transfers	(773,243)	-	15,363	-
Proceeds from the sale of bonds	71,585,000	-	-	-
Payment of bonds	(77,387,000)	-	-	-
Bond issuance costs	(610,222)	-	-	-
Interest expense paid	(55,170,397)	-	-	-
Cash disbursed for program purposes	(37,739,084)	-	-	(187,908)
Net cash provided by (used in) noncapital financing activities	(75,107,637)	(4,000,000)	15,363	(187,908)
Cash Flow From Capital and Related Financing Activities				
Capital assets	(23,922)	-	-	-
Net cash used in capital and related financing activities	(23,922)	-	-	-
Cash Flow From Investing Activities				
Purchase of investments	(119,189,886)	-	-	-
Interest received	384,701	-	-	-
Net cash provided by (used in) investing activities	(118,805,185)	-	-	-
Net increase decrease in cash and cash equivalents	(105,497,529)	(2,392,244)	44,186	(223,455)
Cash and cash equivalents, beginning of year	298,920,417	2,765,231	278,001	237,337
Cash and cash equivalents, end of year	$ 193,422,888	$ 372,987	$ 322,187	$ 13,882
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Net operating income (loss)	$ (6,339,091)	$ 771,675	$ (11,466)	$ (22,349)
Adjustments to change in net assets				
Depreciation and amortization	1,630,771	-	-	-
Interest expense	55,328,240	-	-	-
Bad debt expense	1,164,526	-	-	-
Appropriation, transfers and grants	-	-	-	-
Changes in assets and liabilities				
Loan receivables	33,808,940	-	34,206	-
Advance loan payments	3,544,505	-	-	-
Prepaids and receivables	2,580,318	(198,944)	-	(13,198)
Payables and other accrued liabilities	(3,278,994)	1,035,025	6,083	-
	$ 88,439,215	$ 1,607,756	$ 28,823	$ (35,547)

Cigarette Tax	DWRLF	Primary Care	Local Road Fund
$ -	$ (370,071)	$ (37,114)	$ -
(9,613)	(512,521)	(141,380)	-
-	-	-	-
32,295	2,816,235	818,834	-
-	(8,146,924)	-	-
-	(7,129,031)	-	(1,274,233)
-	14,787,728	-	-
17,660	1,049,773	134,432	10,783
-	144,077	-	1,596,699
40,342	2,639,266	774,772	333,249
-	-	(2,810,000)	(4,398,384)
-	16,167	-	-
-	-	-	-
219,818	(1,527)	-	-
-	-	-	-
(125,000)	-	-	-
-	-	-	-
(110,181)	-	-	-
-	(6,172)	(214,296)	-
(15,363)	8,468	(3,024,296)	(4,398,384)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
24,979	2,647,734	(2,249,524)	(4,065,135)
2,090,920	18,720,804	2,538,770	4,154,895
$ 2,115,899	$ 21,368,538	$ 289,246	$ 89,760
$ (100,797)	$ (8,354,145)	$ (44,062)	$ 326,538
-	-	-	-
110,181	-	-	-
-	-	-	-
-	14,787,728	-	-
32,295	(5,330,689)	818,834	-
-	-	-	-
(189)	(86,687)	-	6,711
(1,148)	1,623,059	-	-
$ 40,342	$ 2,639,266	$ 774,772	$ 333,249

	NM Tax Credits	Energy Efficiency	UNM Health Sciences	Worker's Comp Financing Program
Cash Flows From Operating Activities				
Cash paid for employee services	$ (286,540)	$ -	$ -	$ -
Cash paid to vendors for services	(246,656)	-	(109,669)	(641)
Intergovernmental payments received	-	-	3,891,285	250,000
Loans payments received	-	-	-	-
Loan payments funded	-	-	-	-
Grants awarded	-	-	-	-
Cash received from federal government for revolving loan funds	-	-	-	-
Interest income received	489	-	-	112,107
Administrative fees received	533,195	-	-	-
Net cash provided by (used in) operating activities	488	-	3,781,616	361,466
Cash Flow From Noncapital Financing Activities				
Reversions	-	-	-	-
Cash received from the State of New Mexico	-	-	3,029,570	877,698
Cash transfers to the State of New Mexico	-	-	(2,904,488)	(1,181,331)
Interfund transfers	-	-	39,589	-
Proceeds from the sale of bonds	-	-	-	-
Payment of bonds	-	-	(2,350,000)	(250,000)
Bond issuance costs	-	-	-	-
Interest expense paid	-	-	(1,538,921)	(104,348)
Cash disbursed for program purposes	-	-	-	-
Net cash provided by (used in) noncapital financing activities	-	-	(3,724,250)	(657,981)
Cash Flow From Capital and Related Financing Activities				
Capital assets	-	-	-	-
Net cash used in capital and related financing activities	-	-	-	-
Cash Flow From Investing Activities				
Purchase of investments	-	-	-	-
Interest received	-	-	-	-
Net cash (used in) provided by (used in) investing activities	-	-	-	-
Net increase decrease in cash and cash equivalents	488	-	57,366	(296,515)
Cash and cash equivalents, beginning of year	74,986	-	812,706	1,326,570
Cash and cash equivalents, end of year	$ 75,474	$ -	$ 870,072	$ 1,030,055
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Net operating income (loss)	$ (187,941)	$ (4,174)	$ (42,967)	$ (2,237)
Adjustments to change in net assets				
Depreciation and amortization	-	-	-	9,355
Interest expense	-	-	1,538,921	104,348
Bad debt expense	-	-	-	-
Appropriation, transfers and grants	-	-	-	-
Changes in assets and liabilities				
Loan receivables	-	-	3,891,285	250,000
Advance loan payments	-	-	-	-
Prepaids and receivables	(120,060)	3,479	(4,962,938)	-
Payables and other accrued liabilities	308,489	695	3,357,315	-
	$ 488	$ -	$ 3,781,616	$ 361,466

State Capitol Imprv Financing	State Office Building Bonding Program	Equipment Loan Program	Water Trust Board
$ -	$ -	$ -	$ (479,714)
(9,850)	(34,425)	-	(318,479)
710,000	-	-	-
-	-	28,000	1,001,729
-	-	-	(3,219,378)
-	-	-	(26,114,605)
-	-	-	27,000,155
278,699	56,147	11,767	70,139
-	-	-	-
978,849	21,722	39,767	(2,060,153)
-	-	-	-
9,480	-	-	4,000,000
-	(60,906)	-	-
-	-	-	-
-	-	-	-
(710,000)	-	(28,000)	-
-	-	-	-
(275,800)	-	(11,855)	-
-	-	-	-
(976,320)	(60,906)	(39,855)	4,000,000
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
2,529	(39,184)	(88)	1,939,847
404,926	6,771,022	1,607	11,247,341
$ 407,455	$ 6,731,838	$ 1,519	$ 13,187,188
$ (12,758)	$ 21,722	$ -	$ (26,759,364)
5,807	-	-	-
275,800	-	11,855	-
-	-	-	-
-	-	-	27,000,155
710,000	-	28,000	(2,217,649)
-	-	-	-
-	-	(522)	(753,357)
-	-	434	670,062
$ 978,849	$ 21,722	$ 39,767	$ (2,060,153)

	Water/Waste Water	Emergency Drought	Local Government Planning Fund	Economic Development Program
Cash Flows From Operating Activities				
Cash paid for employee services	$ (50,639)	$ -	$ (34,119)	$ (179,955)
Cash paid to vendors for services	(5,226)	-	(46,431)	(266,104)
Intergovernmental payments received	-	-	-	-
Loans payments received	-	-	-	99,902
Loan payments funded	-	-	-	-
Grants awarded	(1,919,081)	-	(286,773)	-
Cash received from federal government for revolving loan funds	-	-	-	-
Interest income received	(48,059)	820	17,029	-
Administrative fees received	-	-	-	-
Net cash provided by (used in) operating activities	(2,023,005)	820	(350,294)	(346,157)
Cash Flow From Noncapital Financing Activities				
Reversions	(1,613,217)	(290,491)	-	(1,900,000)
Cash received from the State of New Mexico	-	-	-	-
Cash transfers to the State of New Mexico	-	-	-	-
Interfund transfers	-	-	500,000	-
Proceeds from the sale of bonds	-	-	-	-
Payment of bonds	-	-	-	-
Bond issuance costs	-	-	-	-
Interest expense paid	-	-	-	-
Cash disbursed for program purposes	-	-	-	-
Net cash provided by (used in) noncapital financing activities	(1,613,217)	(290,491)	500,000	(1,900,000)
Cash Flow From Capital and Related Financing Activities				
Capital assets	-	-	-	-
Net cash used in capital and related financing activities	-	-	-	-
Cash Flow From Investing Activities				
Purchase of investments	-	-	-	-
Interest received	-	-	-	-
Net cash provided by (used in) investing activities	-	-	-	-
Net increase decrease in cash and cash equivalents	(3,636,222)	(289,671)	149,706	(2,246,157)
Cash and cash equivalents, beginning of year	4,404,799	289,715	191,786	3,952,421
Cash and cash equivalents, end of year	$ 768,577	$ 44	$ 341,492	$ 1,706,264
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Net operating income (loss)	$ (1,981,445)	$ 820	$ (354,821)	$ (1,310,706)
Adjustments to change in net assets				
Depreciation and amortization	-	-	-	-
Interest expense	-	-	-	-
Bad debt expense	-	-	-	1,037,389
Appropriation, transfers and grants	-	-	-	-
Changes in assets and liabilities				
Loan receivables	-	-	-	356,442
Advance loan payments	-	-	-	-
Prepaids and receivables	16,149	-	(10,729)	(47,302)
Payables and other accrued liabilities	(57,709)	-	15,256	(381,980)
	$ (2,023,005)	$ 820	$ (350,294)	$ (346,157)

Local Government Transportation	BioMass Dairy	Total
$ (2)	$ -	$ (4,269,926)
-	-	(2,856,937)
-	-	7,031,285
-	-	240,151,588
-	-	(212,872,105)
(14,573,054)	-	(52,064,117)
-	-	41,787,883
189,400	6,462	55,150,333
-	-	7,797,797
(14,383,656)	6,462	79,855,801
(3,400,000)	-	(18,412,092)
-	-	34,842,554
-	-	(6,069,055)
-	-	-
-	-	71,585,000
-	-	(80,850,000)
-	-	(610,222)
-	-	(57,211,502)
-	-	(38,147,460)
(3,400,000)	-	(94,872,777)
-	-	(23,922)
-	-	(23,922)
-	-	(119,189,886)
-	-	384,701
-	-	(118,805,185)
(17,783,656)	6,462	(133,846,083)
27,459,868	2,026,411	388,670,533
$ 9,676,212	$ 2,032,873	$ 254,824,450
$ (14,391,606)	$ 6,462	$ (58,792,712)
-	-	1,645,933
-	-	57,369,345
-	-	2,201,915
-	-	41,787,883
-	-	32,381,664
-	-	3,544,505
6,380	-	(3,580,889)
1,570	-	3,298,157
$ (14,383,656)	$ 6,462	$ 79,855,801

	Balance July 1, 2010	Increase	Decrease	Balance July 1, 2011
Fund 315 Department of Transportation Revenue Bonds, Series 2004				
Assets				
Cash and investments	$ 61,420,681	$ 102,195,401	$ 110,250,267	**$ 53,365,815**
Total assets	$ 61,420,681	$ 102,195,401	$ 110,250,267	**$ 53,365,815**
Liabilities				
Deposit held in trust for others	$ 61,420,681	$ 102,195,401	$ 110,250,267	**$ 53,365,815**
Total liabilities	$ 61,420,681	$ 102,195,401	$ 110,250,267	**$ 53,365,815**
Fund 322 Department of Transportation Revenue Bonds, Series 2006				
Assets				
Cash and investments	$ 34,396,341	$ 37,033,370	$ 44,149,055	**$ 27,280,656**
Total assets	$ 34,396,341	$ 37,033,370	$ 44,149,055	**$ 27,280,656**
Liabilities				
Deposit held in trust for others	$ 34,396,341	$ 37,033,369	$ 44,149,055	**$ 27,280,655**
Total liabilities	$ 34,396,341	$ 37,033,369	$ 44,149,055	**$ 27,280,655**
Fund 326 Department of Transportation Refunding Revenue Bonds, Series 2008				
Assets				
Cash and investments	$ 3,260,774	$ 26,291,176	$ 23,853,264	**$ 5,698,686**
Total assets	$ 3,260,774	$ 26,291,176	$ 23,853,264	**$ 5,698,686**
Liabilities				
Deposit held in trust for others	$ 3,260,774	$ 26,291,175	$ 23,853,264	**$ 5,698,685**
Total liabilities	$ 3,260,774	$ 26,291,175	$ 23,853,264	**$ 5,698,685**
Fund 327 Department of Transportation Refunding Revenue Bonds, Series 2009				
Assets				
Cash and investments	$ 49,109	$ 35,310,605	$ 35,312,650	**$ 47,064**
Total assets	$ 49,109	$ 35,310,605	$ 35,312,650	**$ 47,064**
Liabilities				
Deposit held in trust for others	$ 49,109	$ 35,310,605	$ 35,312,650	**$ 47,064**
Total liabilities	$ 49,109	$ 35,310,605	$ 35,312,650	**$ 47,064**
Fund 328 Department of Transportation Refunding Revenue Bonds, Series 2010A				
Assets				
Cash and investments	$ -	$ 84,041,081	$ 14,831,811	**$ 69,209,270**
Total assets	$ -	$ 84,041,081	$ 14,831,811	**$ 69,209,270**
Liabilities				
Deposit held in trust for others	$ -	$ 84,041,081	$ 14,831,811	**$ 69,209,270**
Total liabilities	$ -	$ 84,041,081	$ 14,831,811	**$ 69,209,270**
Fund 329 Department of Transportation Refunding Revenue Bonds, Series 2010B				
Assets				
Cash and investments	$ -	$ 16,498,967	$ 16,294,995	**$ 203,972**
Total assets	$ -	$ 16,498,967	$ 16,294,995	**$ 203,972**
Liabilities				
Deposit held in trust for others	$ -	$ 16,498,967	$ 16,294,995	**$ 203,972**
Total liabilities	$ -	$ 16,498,967	$ 16,294,995	**$ 203,972**

Wells Fargo		
Deposit account	$	239,966
Repurchase agreements		1,725,452
Total amount of deposits		1,965,418
FDIC insurance on deposit accounts		(239,966)
Total uninsured public funds		1,725,452
Collateral requirement (102%)	$	1,759,961
Pledges and Securities		
Federated Government Corporate Intermediate Fund 15 year, issued December 1, 2010; matures December 1, 2025 including accrued interest of $926.76 CUSIP 3128PTF5, rate 3.5%	$	324,997
MBS Pool - Ginnie Mae, 30 year level pay; issued March 1, 2000; July 15, 2029 including accrued interest of $6,358.87 CUSIP 36225BHZ4, rate 6.0%		1,434,964
Total collateral	$	1,759,961

Single Audit

New Mexico Finance Authority
Schedule of Expenditures of Federal Awards
June 30, 2011

Grantor / Program Title	Federal Catalog Number	Federal Expenditures FY 2011
Environmental Protection Agency		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 4,960,422
Capitalization Grants for Drinking Water - ARRA State Revolving Funds	66.468	10,073,060
Total expenditures of federal awards		$ 15,033,482

New Mexico Finance Authority
Note to Schedule of Expenditures of Federal Awards
June 30, 2011

1) 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 Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Authority's basic financial statements.

Reconciliation to Financial Statements
New Mexico Drinking Water Revolving Loan Program

Total federal revenue according to statement of revenues expenses and changes in net assets (page 44)	$15,924,673
Prior-year accrual	(891,191)
Total EPA expenditures	$ 15,033,482

The Authority administers loans under the EPA Program (Federal Catalog Number 66.468). The outstanding balances on the loans at June 30, 2011 are $65,710,121. Only the value of new loans expended during the fiscal year is included in the accompanying schedule.

2) Subrecipients

Community	FY 2011 Pass-Through Funds
University of New Mexico	$ 1,993,927
ABCWUA	1,960,058
Rio Rancho, NM	1,948,162
NM Environmental Department (set aside funds)	1,859,794
Sunland Park, NM	1,515,337
Carlsbad, NM	1,449,445
Alto Lakes, NM	1,425,141
Farmington, NM	1,126,983
Santa Fe, NM	938,771
Other subrecipients	816,224
Total	$ 15,033,842

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Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Governing Board
New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico Office of the State Auditor
Santa Fe, NM

We have audited the basic financial statements of the New Mexico Finance Authority (the "Authority"), as of and for the year ended June 30, 2011, and have issued our report thereon dated February 5, 2013. 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

Management of Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2011-2 thru 2011-5 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-6.

We also noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 2011-8 through 2011-11.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Governing Board, the 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.

REDW LLC

Albuquerque, New Mexico
February 5, 2013

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Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Governing Board
New Mexico Finance Authority
and
Mr. Hector H. Balderas
New Mexico Office of the State Auditor
Santa Fe, NM

Compliance

We have audited New Mexico Finance Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and the New Mexico Office of the State Auditor Rule,

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which are described in the accompanying schedule of findings and questioned costs as items 2009-2 and 2011-7.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-2 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-7 to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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

This report is intended solely for the information and use of management, the Governing Board, the 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.

REDW LLC

Albuquerque, New Mexico
February 5, 2013

New Mexico Finance Authority
Schedule of Findings and Questioned Costs
June 30, 2011

Section I — Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes ___ No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes ___ None reported
- Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes ___ No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes ___ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes ___ No

Identification of Major Programs

Name of Federal Program	CFDA Number	Expenditures
Capitalization Grant for Drinking Water State Revolving Funds	66.468	$ 4,960,422
Capitalization Grant for Drinking Water State Revolving Funds – ARRA	66.468	$10,073,060

Dollar threshold used to distinguish between type A and type B programs: $451,000

Auditee qualified as low-risk auditee? ___ Yes X No

New Mexico Finance Authority
Schedule of Findings and Questioned Costs
June 30, 2011

Section II — Financial Statement Findings

2011-1 (FS) Financial Reporting Oversight (Material Weakness)

Condition: Financial statements purporting to be the Authority's fiscal year 2011 audited financial statements were released by the Authority's chief financial officer on March 12, 2012 and included in an official statement, dated March 22, 2012, supporting a public offering of the Authority's bonds (Senior Lien PPR Series 2012A). In July 2012, it was established that auditor's report accompanying those financial statements was fraudulent and the financial statements had not been audited. As a result, three separate investigations were conducted under the direction of the New Mexico Office of the State Auditor (OSA), the New Mexico Regulation and Licensing Department's Securities Division (NMR&L), and the New Mexico Legislative Council (NMLC). Those revealed serious weaknesses in corporate governance and financial reporting oversight that led to the failure to prevent, and timely detect, the release of the fraudulent audit report. Findings and recommendations resulting from these procedures are detailed in separately issued reports. The three investigative reports are available on the Authority's website at http://www.the Authority.net .

Consistent with the reports issued by the OSA, NMR&L, and NMLC, we noted the following issues evidencing lack of adequate internal policies and procedures, and lack of effective oversight by those charged with governance, that contributed to the failure to obtain a timely audit and to the release of the fraudulent report:

- The Authority's audit committee does not have a charter defining its makeup and responsibilities.
- The Authority's policies and procedures require that management meet with the audit committee monthly; however, the audit committee only met with management three times during fiscal year 2011.
- In fiscal year 2011, no members of the audit committee were certified public accountants (CPA). (Note: After the fraudulent audit report was discovered, the Chairman of the Board requested that a CPA be designated by a board member to sit on the audit committee.)
- The Board minutes dated April 27, 2012, document that the audit committee accepted the 2011 audit report presented by the Authority's CFO; however, there was no documentation of communication with representatives of the audit firm, including certain communications that are required by generally accepted auditing standards between auditors and those charged with governance.
- The fraudulent report was presented to the board by NMFA's CEO on March 22, 2012. New Mexico Office of the State Auditor's Audit Rule requires the independent public accountant to present the audit report to the board upon its release by the State Auditor. Although, the report was fraudulent the Authority did not comply with the New Mexico Office of the State Auditor's Audit Rule.

Section II — Financial Statement Findings — continued

2011-1 **(**FS) Financial Reporting Oversight (Material Weakness) — continued

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- The Authority's bylaws do not require Board approval of the audited financial statements.

Additionally, the Authority's management did not adhere to the Government Conduct Act during the period the Authority has been found to have issued fraudulent financial statements.

Criteria: Procedures should be in place to ensure that accurate, timely annual financial statements are prepared, audited in accordance with applicable New Mexico statutes and regulations, and released timely, after review and approval by the audit committee, the Board, and the New Mexico Office of the State Auditor. 10-16-3 (b) NMSA - public officer or employee shall conduct himself in a manner that justifies the confidence placed in him by the people, at all times maintaining the integrity and discharging ethically the high responsibilities of public service.

Effect: The financial information released to the public was fraudulent. Rating agencies and the investment community has had to wait on the Authority's 2011 financial reports. Substantial additional costs were incurred to determine both the extent of the fraud and its impact on the Authority. Consequently, the Authority has developed, and implemented corrective actions. As previously stated, the Authority was subject to investigations from the New Mexico Office of the State Auditor, New Mexico Regulation and Licensing's Securities Division and the New Mexico Legislative Council. As a result of these investigations, the findings are as follows:

- New Mexico Office of the State Auditor – 14 findings.
- New Mexico Regulation and Licensing's Securities Division - 4 findings.
- New Mexico Legislative Council - 7 findings.

Cause: As disclosed in the reports described above, causes ranged from the governing board and audit committee having limited involvement in, and oversight of, the financial reporting processes, lack of policies and procedures for the audit committee, and management not fully informing those charged with governance about the status of compliance with financial reporting requirements.

Auditors' Recommendations: We recommend the Authority review the investigative reports and implement a comprehensive corrective action plan which that will include establishment of appropriate policies, procedures and controls over the financial reporting process. The Authority should educate all persons required to perform duties under the Governmental Conduct Act of those duties. This includes advising all those persons at least annually of the Governmental Conduct Act's ethical principles. The Authority should also educate all persons of their required duties under the Audit Act and Audit Rule.

Section II — Financial Statement Findings — continued

2011-1 **(**FS) Financial Reporting Oversight (Material Weakness) — continued

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Management's Response: The Authority has reviewed the audits and investigative reports thoroughly. A compilation of all the findings has been prepared. It is organized by the noted deficiencies with all related recommendations listed. Progress to date on all issues is documented and further corrective action, prioritized. This compilation will be updated as required and will serve as a tool for continued improvements. Specific items are listed below.

- The Authority prepares the financial information that was previously provided directly to the Board. Currently that information is submitted to the Audit Committee each month to allow detailed monthly discussions regarding the financial position of the Authority and provide status updates regarding new business for the audit committees' review thereby mandating the committee convene. Previously there were no meetings held if it was deemed there was no new business to discuss.
- The Audit Committee is chaired by the state controller who, as well as being a CPA, also has the financial expertise to drive compliance and improve operations.
- The audit committee is currently very involved with the audits of the Authority and now meets with the auditors regularly. policies will require training for the Board and Audit Committee that will include the audit process of the State of New Mexico, which is complex in nature.
- The Authority will require attendance of the Audit Committee at the Exit Conference for each fiscal year and, after each fiscal year audit has been released by the New Mexico State Auditor, will require the external auditors to present the final report to the Board.
- The Authority plans to have the financial staff attend the annual New Mexico Office of the State Auditor's presentation on the Audit Rule.

All staff of the Authority will acknowledge receipt of a code of conduct policy which will include reference to the Government Conduct Act.

Section II — Financial Statement Findings — continued

2011-2 (FS) Payment of Public Funds Without an Approved Contract (Significant Deficiency)

Condition: The Authority made payments to an independent audit firm without an approved contract. Four payments were made, totaling $67,600, during the time period from May 2011 to October 2011.

Criteria: Section 12-6-14(A) NMSA 1978 (Contract Audits) states that "payment of public funds may not be made to an independent auditor unless a contract is entered into and approved as provided in this section."

Effect: Payments were made without following the procurement procedures set forth in the NM Office of the State Auditor (OSA) Audit Rule. As a result, there is a shortage of funds for which the Authority is accountable for under law.

Cause: Procedures were not in place to prevent payments in violation of Audit Rule 2011 Requirements for Contracting and Conducting Audits of Agencies 2.2.2. NMAC.

Auditors' Recommendations: Establish procedures to ensure compliance with the OSA Audit Rule requirements, including the requirement that contracts be approved prior to issuing payment for audit services.

Management's Response: The Authority is in the process of updating its policies related to contracts. The policy will detail:

- The Authority's Office of General Counsel will maintain the procurement file for all contracts.
- When is it appropriate to enter into a contract, memorandum of understanding (MOU), joint powers agreement (JPA) or other obligating instrument;
- Who may legally obligate the Authority;
- When is a contract fully executed;
- When does an obligation become a liability;

The policy will detail the documentation required to support the process for review prior to payment, require the maintenance of a list of current contracts and other agreements with corresponding expiration dates and balances, and include a training and communication plan.

Section II — Financial Statement Findings — continued

2011-3 (FS) Account Reconciliations and Cutoff Procedures – (Significant Deficiency)

Condition: Many balance sheet accounts were lacking reconciliations that agreed to the Authority's general ledger as of June 30, 2011.

Criteria: The Authority, as a custodian of public funds, is required to prepare monthly reconciliations of all accounts from the Authority's balance sheet sub-ledgers to the general ledger. Individual accounts should be reconciled on a monthly basis and discrepancies or inconsistencies should be investigated and resolved timely.

Cause: Procedures were not in place to ensure timely reconciliation of each general ledger balance to supporting detail sub-ledgers.

Effect: There is a potential for inaccurate financial reporting. The information produced by the system may not be reliable for the purpose of making financial decisions. Problems reporting timely and current financial information throughout the year can significantly impact management's ability to effectively manage the Authority.

Auditors' Recommendations: Establish internal control procedures to ensure accurate, timely accounting and financial reporting. This should include the agreement to the general ledger and posting of entries to agree the balance sheet sub ledgers to the general ledger.

Management's Response:

- Policies have been implemented that establish internal reporting and closing deadlines.
- Current procedures are being analyzed to ensure that system controls are appropriate and effective. Procedures will then be updated as needed.
- Proper cutoff based on the eligibility requirement relating to each program have been determined and are now used to accurately accrue for outstanding liabilities.
- All reconciliations performed for cash accounts and investments are prepared and reviewed prior to month-end close.
- A new loan servicing system is being implemented that will automate many of the manual processes, giving staff the opportunity to be more timely in their efforts to support general ledger balances.

Section II — Financial Statement Findings — continued

2011-4 (FS) Use of Company Credit Cards (Significant Deficiency)

Condition: The Authority did not have an internal control process in place to reduce the risk of improper use of credit cards. As a result, credit cards were used to make purchases in violation of Authority policies and/or state laws and regulations. Two credit cards were improperly used by three employees in three instances in the amounts of $703, $763 and $272 to make these improper purchases. The Authority subsequently collected $1,738 from the three employees.

Criteria: The Authority's credit card policy describes the date receipts are due and what charges are not allowed.

Effect: Inappropriate charges were made using credit cards. Such inappropriate charges were not identified timely. The lack of controls over the credit cards resulted in the Authority having to seek reimbursement from employees found to have abused their credit card privileges.

Cause: The Authority's employees, including senior management, did not adhere to the Authority's policy over the use of credit cards.

Auditors' Recommendations: Establish procedures to monitor charges to credit cards that identify and resolve unauthorized charges and expenses immediately. Additionally, policies for the proper use of credit cards should be regularly communicated to employees.

Management's Response: Updated policy allows the Authority only one credit card that is to be used with prior approval and within the purchasing guidelines of the Authority.

Section II — Financial Statement Findings — continued

2011-5 (FS) Information Technology (IT) Issues (Significant Deficiency)

Condition: Several areas of the information technology infrastructure were identified as needing enhanced controls. These areas include:

- Lack of redundant internet connectivity
- IT policies and procedures
- Internet content filtering
- Annual restore from backup test
- Business continuity and disaster recovery plan (BCP/DRP)

Lack of Redundant Internet Connectivity - There is a dedicated T1 connection from the headquarters location to the offsite data center. If the main T1 connection goes down, the Authority has no connection to the data center, which would essentially negate the disaster recovery plan, as the offsite data center would not function.

IT Policies and Procedures - The Authority does not have a comprehensive set of formal, approved IT policies. There are policy elements and statements, though, contained in many of the procedure documents. The policy statements are fractured and spread throughout the procedures. This makes understanding the policy requirements very difficult. The procedures/policies have revision dates but no Governing Board approval date.

Internet Content Filtering - The Authority restricts access to known black-listed websites, porn, and gambling. Employees are supposed to be blocked from accessing social networking sites (Facebook, LinkedIn, MySpace, etc.). When we tested the policy, Facebook was specifically allowed for all users.

Annual Restore from Backup Test - The IT department performs routine nightly backups of all financial applications. There is not regular restore of backups, which is not in compliance with the data backup policy. Performing an annual restore from backup test is an important part of a disaster recovery plan.

Business Continuity and Disaster Recovery Plan (BCP/DRP) - The Authority is in the process of re-writing the BCP/DRP that describes its contingency plans for continuing the Authority operations and recovery of operations in the case of a disaster. The Authority hopes to have the BCP/DRP completed in the fourth quarter of 2012 and perform testing shortly thereafter.

Section II — Financial Statement Findings — continued

2011-5 (FS) Information Technology (IT) Issues (Significant Deficiency) — continued

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Criteria: Information Technology (IT), including systems and infrastructure are essential and integral to the efficiency of the Authority's operations. IT internal controls are essential to maintain the confidentiality, integrity, and availability of data. IT internal controls are as important as the internal controls that surround the input of financial transactions into the Authority's general ledger.

Cause and Effect: Without strong internal controls over the Authority's IT infrastructure and systems, there is the potential for the confidentiality, integrity, and/or availability of data to be compromised. This compromise could be by an internal user of the system, by an external source, could be intentional or unintentional, and could be the result of a disaster.

Auditors' Recommendations: Consider adding another carrier for the T1 connection to avoid a complete loss of connectivity if service should be disrupted. This would also be congruent to the Authority's plans to have multiple applications that are cloud-based.

A complete set of IT policies should be developed and implemented. These policies must be clear, concise, and understood by the target audience. The policies should be in a standard format because they cover recurring situations. A policy approval process should be followed and all policies should be approved and have an approval date on them. The policies should be reviewed annually and updated as necessary.

Ensure that web filtering is filtering and blocking as it should. Security awareness training for employees should emphasize the security risk of access in social networking sites from the Authority's network.

Ensure that an annual restore from backup test is performed and documented.

Ensure that completing, testing, and training on the new BCP/DRP is a priority and is completed before the end of 2012.

Management's Response: The Authority is currently working to move its internet services over to the New Mexico State Contract and to link directly to the state's data center. The Authority is also in the process of establishing a data center in Albuquerque to be used as a DR site. The Authority's IT will be meeting in January 2013 to discuss a design and service proposal. These measures should provide an increase in reliability and services.

Section II — Financial Statement Findings — continued

2011-5 (FS) Information Technology (IT) Issues (Significant Deficiency) — continued

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Management's Response: — continued

Currently the Authority only uses the cloud for email services. At this time 50% of the Authority's staff are laptop users and if connectivity to the 207 Shelby facility were lost then that portion of the staff could switch to Verizon wireless connections. Leveraging Verizon wireless as a backup connection will be the direction the Authority will follow until the use of cloud based service increases to a level where a loss of connectivity would disrupt day to day activity.

The various IT policies have been updated and have been combined into a single IT Acceptable Use Policy for all employees to sign. IT staff has conducted a formal training on the new IT policy. The new IT policy went into effect in January 2013.

Information from the existing password policy and the data backup policy have been combined into one of the following documents:

- IT Acceptable Use Policy January 2013
- Infrastructure, Security and Recovery Manual 2012-2013
- Business Continuity Plan 2012-2013

The access to Facebook site was removed at the time the auditor noted that it was available. The Authority relies on Juniper firewall packaged filtering. This package blocks most social networking sites that it classifies as "dating and personal." Facebook and MySpace are included in that classification. However LinkedIn is currently considered a site useful for some Authority business practices. IT will continue to leverage software based filters to manage access to restricted websites.

IT has instituted biweekly tests of servers replicated to the offsite datacenter. IT will also institute monthly data restores to coincide with monthly server patching.

A formal disaster recovery drill will be conducted in Q2-2013. Management will establish a formal BCP committee to review and test all recovery procedures.

Section II — Financial Statement Findings — continued

2011-6 (FS) Bond Covenants — Other

Condition: Annual audited financial statements were not submitted as required by the reporting requirements of the bond covenants.

Criteria: The bond covenants require that within two hundred seventy (270) days following the close of each fiscal year an annual audit report be submitted to the bond holders. The bond covenants set forth a requirement for an audit of the Authority's books and accounts, including the specific accounts relating to the Pledged Revenues to be commenced by an independent accountant showing the receipts and disbursements in connection with such.

Effect: The bond holders did not receive timely financial audit information specified in the bond covenants.

Cause: Lack of adequate financial reporting and oversight policies and procedures. See also, finding 2011-1.

Auditors' Recommendations: Establish procedures to ensure compliance with financial reporting requirements.

Management's Response: The Authority will make every effort to provide statements within the prescribed timeframe.

Section III — Federal Award Findings and Questioned Costs

2009-2 (FA) Timely Submission of Reports (Repeated and Modified) (Material Weakness)

Federal program information:

Funding agency:	Environment Protection Agency (EPA)
Title:	Capitalization Grant for Drinking Water State Revolving Funds
CFDA:	66.468

Condition: The fiscal year 2011 Annual Financial Report was not submitted to the New Mexico Office of the State Auditor by the submission deadline as of December 15, 2011. The 2011 Single Audit Reporting Package was not submitted to the Federal Single Audit Clearinghouse by the March 31, 2012 deadline. Procedures were not in place to ensure reporting by the applicable deadlines.

Criteria: Section 2.2.2.9A (1) (f) of NMAC Audit Rule 2011, Requirements for Contracting and Conducting Audits of Agencies, requires that annual audit reports be received in the Office of the State Auditor no later than December 15, 2011. The Federal Single Audit Act and related regulations require submission of Single Audit reports within nine months of fiscal year-end.

Effect: The Authority is not in compliance with OMB Circular A-133 and the New Mexico Office of the State Auditor's Audit Rule.

Questioned Costs: None

Cause: The Authority did not submit the Annual Financial Report or the Single Audit Reporting Package timely as a result of issues with its financial reporting process which are described in finding 2011-1.

Auditors' Recommendations: The Authority should work towards having their books closed and ready for audit in a timely manner and establish policies, procedures and internal controls to ensure compliance with federal and state reporting requirements.

Management's Response: The Authority has performed the following:

- Established internal deadlines for monthly as well as annual closing of its books.
- Modified its Board information format to financial statement presentation with accrued balances so that the information presented is analyzed in a manner similar to that audited, and to ensure that the books will always be in a state of review readiness.
- Implemented a training schedule for accounting staff regarding financial requirements with applicable oversight agencies and accounting practices as well as in ethics related to financial reporting.

The Authority also plans to prepare semi-annual reports once all late audits have been submitted. This will ensure timely reconciliations of items such as fund balance that are not typically reviewed until year-end.

Section III — Federal Award Findings and Questioned Costs — continued

2011-7 (FA) Reporting (Significant Deficiency)

Federal program information:

Funding agency:	Environmental Protection Agency (EPA)
Title:	Capitalization Grants Drinking Water State Revolving Fund Program
CFDA Number:	66.468

Condition: In testing the 2011 Annual Report we discovered that the report was submitted on October 3, 2011, 3 days after the due date.

Criteria: The Annual Report for the State of New Mexico is due by September 30 (90 days after end of state fiscal year June 30) to the Environmental Protection Agency.

Effect: Noncompliance with this reporting requirement.

Questioned Costs: None

Cause: Internal controls were in place to ensure the Annual Report is submitted on time, however, time delays and corrections to the report delayed the submission.

Auditors' Recommendations: The Authority should implement policies and procedures to ensure that the report is prepared and submitted before the October 1 deadline.

Management's Response: The Authority makes every effort to report timely. A tickler system will be implemented in the new loan servicing system with reminders of all report deadlines. All staff will have access to that portion of the system.

Section IV — Other Findings and Questioned Costs

2011-8 (SA) IRS Required Reporting of Taxable Fringe Benefits — Other

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Condition: The Authority provided two automobiles to certain employees which were being used in part for personal use. The value of personal use was not included in either of the employees' W-2 forms.

Criteria: Employee fringe benefits are presumed by the IRS to be income to the employee unless they are specifically excluded from income by the tax code. Any employee fringe benefits not excluded from income by the tax code must be reported on the employee's W-2. Personal use of a government agency vehicle is always taxable income to the employee unless the vehicle is a qualified nonpersonal use vehicle [Rev.1.274-5T(k)(3)] provided to the employee as a "working condition fringe benefit."

Cause: Authority personnel lacked a full understanding of taxable employee fringe benefits causing benefits not to be reported to the payroll service organization.

Effect: Personal use of the Authority's vehicle was not reported to the Internal Revenue Service (IRS) through the employees' W-2s, as required.

Auditors' Recommendation: We recommend the Authority develop procedures to report vehicle personal use in compliance with IRS required reporting of taxable fringe benefits.

Management's Response: There are currently no directly owned vehicles available for personal or take home use by any staff of the Authority. All business use vehicles are, and will continue to be, leased from the General Services Department of the State of New Mexico. An amended IRS form w-2 and corresponding w-3 will be prepared by the Authority's payroll service provider to include the compensation received for the car usage benefit.

Section IV — Other Findings and Questioned Costs — continued

2011-9 (SA) Timely Cash Receipts Deposit - Other

Condition: Five of ten cash receipts tested, totaling $95,691, were not deposited by the close of the next business day.

Criteria: The Authority is required by NMSA 6-10-3 to deposit receipts, checks / drafts on or before the close of the next succeeding business day.

Effect: Noncompliance with the timely deposit rule creates the opportunity for checks/drafts to be lost or misappropriated.

Cause: Lack of effective controls over cash receipts to ensure that checks and other receipts are delivered to the accounting department for deposit immediately after they are restrictively endorsed.

Auditor's Recommendation: Modify the cash receipts process to ensure deposits are being made within the required time period. Consider the use of remote deposits services offered by banking institutions.

Management's Response: The Authority receives most if its cash via wire transfer, however there are instances when payments are made with a check, by mail. The Authority has purchased and is currently using equipment that enables check scanning for deposit from a desktop directly into the bank account. This allows deposits to be made instantly, thus ensuring 24 hour compliance.

Section IV — Other Findings and Questioned Costs — continued

2011-10 (SA) Travel and Per Diem Expenditures — Other

Condition: As part of the test work related to the Travel and Per Diem Act, we identified 2 out of 13 expense reimbursements that lacked proper documentation which totaled $9.63. Furthermore, the Authority's travel policy implemented during 2011 allows for employees to receive $19.54 per diem per day for use of personal vehicle used for business related travel. This policy conflicts with the per diem rates specified in the Travel and Per Diem Act.

Criteria: Title 2 Chapter 42 Part 2 of the New Mexico Administrative Code (Travel and Per Diem Act) provides that reimbursement of expenses in lieu of per diem rates require receipts for the meal and lodging expenses occurred. In circumstances where the loss of receipts would create a hardship, an affidavit from the officer or employee attesting to the expenses may be substituted for receipts.

Effect: Reimbursement to employees without the required documentation can create the opportunity for misappropriation of the Authority's resources. Employees may also be receiving more or less than the state's travel and per diem policy prescribes.

Cause: The Authority did not have procedures in place to ensure compliance with the *Travel and Per Diem Act* requiring supporting documentation for all reimbursements. The policy for travel and per diem is inconsistent with the travel and per diem act.

Auditors' Recommendations: Implement policies and procedures to ensure that no expense report related request for payment are paid without proper documentation and the Authority follow the prescribed travel and per diem policy.

Management's Response: The Authority complied with an internal travel and per diem policy and as such did not follow the state Travel and Per Diem Act during 2011. Its own policy was breached in the circumstances identified above. The Authority will rewrite its policy to be aligned with the state Travel and Per Diem Act and communicate and monitor such policy to ensure compliance.

Section IV — Other Findings and Questioned Costs — continued

2011-11 (SA) Equipment — Other

Condition: The Authority's equipment listing includes several fully depreciated assets that are no longer in service. In addition, there were assets that were past their useful lives that had not been fully depreciated. Furthermore, an inventory of all equipment was not performed during the year.

Criteria: New Mexico State Statute Section 12-6-10, NMSA 1978, requires all organizations to conduct an annual physical inventory of equipment. A periodic physical inventory of equipment is necessary to determine whether equipment is impaired, to ensure that the equipment listing is correct and complete, and to detect of loss of property and equipment.

Cause: The Authority does not have a process or policy in place to take a physical inventory of its equipment, or to assess equipment for impairment. Additionally, procedures were not in place requiring a periodic review of the equipment listing and related depreciation to ensure accuracy of the equipment descriptions and lives, accumulated depreciation, and depreciation expense, and to identify obsolete assets and those no longer in service.

Effect: Without a periodic physical inventory of equipment, the Authority may be exposed to the risk of loss or unauthorized use of property and equipment, and may fail to identify equipment whose use has been impaired. Additionally, failure to perform a periodic review and recalculation of the capital asset listing and related depreciation could lead to inaccurate asset and accumulated depreciation balances.

Auditors' Recommendations: Periodic physical counts of movable equipment should be performed and compared to the detailed equipment subsidiary ledger on at least an annual basis. Affixing identifying tags with numbers as assigned in the subsidiary ledger will aid in making this comparison. Equipment whose use has been impaired should be identified at this time, and appropriate adjustments made to carrying values in the general ledger. Equipment that is no longer in use should be identified, properly disposed of, and removed from the equipment listing. Additionally, the Authority should perform a periodic recalculation of the equipment listing and related depreciation.

Management's Response: The Authority has implemented these policies based on the State audit rule and will perform an inventory count, annually.

New Mexico Finance Authority
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

2010-01 Reported in current year as 2009-02, the original finding number.

New Mexico Finance Authority
Corrective Action Plan
June 30, 2011

Audit Finding	Responsible Party	Corrective Action to be Taken	Target Date
2011-1	Chief Financial Officer	See Management's Response 2011-1	March 2014
2011-2	Chief Financial Officer/Legal Counsel	See Management's Response 2011-2	July 2013
2011-3	Chief Financial Officer	See Management's Response 2011-3	July 2013
2011-4	Chief Financial Officer	See Management's Response 2011-4	Corrected
2011-5	Chief Financial Officer/ Internal Information Technology Department	See Management's Response 2011-5	July 2014
2011-6	Chief Financial Officer	See Management's Response 2011-6	December 2013
2011-7	Chief Financial Officer	See Management's Response 2011-7	Corrected
2011-8	Chief Financial Officer	See Management's Response 2011-8	July 2013
2011-9	Chief Financial Officer	See Management's Response 2011-9	July 2013
2011-10	Chief Financial Officer	See Management's Response 2011-10	July 2013
2011-11	Chief Financial Officer	See Management's Response 2011-11	July 2013
2009-2	Chief Financial Officer	See Management's Response 2009-2	December 2013

New Mexico Finance Authority
Exit Conference June 30, 2011

An exit conference was held on January 23, 2013, with the Authority. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

New Mexico Finance Authority

John H. Bemis	Board Member / NM EMNRD Cabinet Secretary
Tom Clifford, Ph.D.	Board Member / DFA Cabinet Secretary
Ricky Bejarano	Audit Committee Member / State Controller
John Gasparich	Interim Chief Executive Officer
Donna Trujillo	Chief Financial Officer
Dora C de Baca	Chief Administration Officer
Dan Opperman	General Counsel
Bob Spradley	Senior Accountant

REDW LLC

Bruce Bleakman	Principal
Stephen Montoya	Senior Manager
Javier Machuca	Senior Manager
Richard Gillespie	Staff Auditor