# NEW MEXICO
# FINANCE AUTHORITY

Financial Statements
for the Year Ended
June 30, 2008,
and Independent
Auditors' Report

NEW MEXICO FINANCE AUTHORITY

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**Single Audit:**

## Year Ended June 30, 2008

### Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
Ron Curry, Member
Charlie Dorame, Member
Ed Garcia, Member
Paul Gutierrez, Member
Lonnie Marquez, Member
Katherine Miller, Member
Fred Mondragon, Member
Joanna Prukop, Member
Craig Reeves, Member

**Chief Executive Officer**
William C. Sisneros

**Chief Operating Officer**
Jerome L. Trojan

**Chief Financial Officer**
John T. Duff

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2008, and the respective changes in the financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in



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conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Meyners + Company, LLC

September 29, 2008

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

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

## Financial Highlights

- The Authority's government-wide net assets increased by $108,079,275 in fiscal year 2008 from 2007.
- The Authority's total revenues increased by $125,041,170 in fiscal year 2008 from 2007.
- The total cost of all Authority programs was $122,841,109, an increase of 28,627,230 over 2007.

## Authority Highlights

The New Mexico Finance Authority, created in 1992, assists New Mexico governmental units, such as cities, counties and State Governmental Departments and agencies in financing capital equipment and infrastructure projects by providing loans at tax exempt rates and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Project Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the Authority and the Authority provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2008, the PPRF program made approximately 90 loans totaling approximately $386.8 million, compared to 93 loans totaling approximately $211.3 million in FY2007.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2008, the DWRLF made seven loans totaling $34.9 million compared to three loans totaling $5.76 million in FY2007. The FY2008 binding commitments numbered seven, approximating $27.9 million, compared to six totaling approximately $23.8 million in FY2007.

## Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2008, the Authority Board has approved 17 loans totaling $11.25 million. In FY2008, the PCCF program made two loans totaling $3.2 million.

During FY2008, the Authority issued $391.2 million in bonds to provide reimbursement to the Public Projects Revolving Loan Fund and to retire borrowings incurred by the Authority in anticipation of issuing bonds.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY2008, four grants closed for a total of $1,053,260, compared to seven grants totaling $4,281,350 in FY2007.

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

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

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

## Overview of the Financial Statements - continued

### Government-wide Financial Statements - continued

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

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

- Governmental Activities – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in the Governmental Activities for the Authority are the Metro Court Financing, the State Office Building Program Financing, the State Capitol Building Improvements Program Financing, the University of New Mexico (UNM) Health Sciences Center Projects Financing, the Workers' Compensation Administration Building Financing, the Water Projects Fund Financing, the Water/Wastewater Grant Fund, the Local Governments Planning Fund, the Emergency Drought Relief Grant Fund, the Local Government Transportation Fund (GRIP II), the Bio-Mass Dairy Fund, the Economic Development Financing and the Certificates of Participation Equipment Financings.

- Business –type Activities – The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Project Revolving Fund, the Drinking Water Revolving Loan Fund, the Primary Care Revolving Loan Fund, the Behavioral Health Care Revolving Loan Fund, the Child Care Revolving Loan Fund, GRIP I Administrative Fund, the Behavioral Health Capital Revolving Loan Fund, the GRIP Administrative Fund, the New Markets Tax Credits Fund, the Energy Efficiency Fund and the General Operating Fund.

### Fund Financial Statements

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

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

## Overview of the Financial Statements - continued

### Fund Financial Statements - continued

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

## Overview of the Financial Statements - continued

### Management's Discussion and Analysis

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

### Notes to the Financial Statements

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

### Budgetary Comparisons

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

### Required Supplementary Information (Other than MD&A)

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

## Financial Analysis of the Authority as a Whole

**Net Assets:** Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2008. FY2008 net assets for Governmental Activities and Business-type Activities were $28,241,533 and $197,914,492, respectively. Total Authority net assets for fiscal year 2008 are $226,156,025. However, most of those net assets are restricted as to the purposes for which they can be used.

**Table A-1**
**The Authority's Net Assets**

| | | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Current and other assets | $ | **134,267,548** | 45,024,418 | **92,483,095** | 84,608,587 | **226,750,643** | 129,633,005 |
| Capital and non-current assets | | **2,175,384** | 2,396,886 | **1,432,582,634** | 955,034,773 | **1,434,758,018** | 957,431,659 |
| Total assets | $ | **136,442,932** | 47,421,304 | **1,525,065,729** | 1,039,643,360 | **1,661,508,661** | 1,087,064,664 |
| Current liabilities | $ | **6,482,888** | 8,187,482 | **323,519,447** | 154,767,837 | **330,002,335** | 162,955,319 |
| Long-term liabilities | | **109,883,518** | 114,311,923 | **995,999,482** | 691,720,673 | **1,105,883,000** | 806,032,596 |
| Total liabilities | | **116,366,406** | 122,499,405 | **1,319,518,929** | 846,488,510 | **1,435,885,335** | 968,987,915 |
| Net Assets: | | | | | | | |
| Invested in capital assets | | **113,333** | 145,503 | **264,652** | 292,268 | **377,985** | 437,771 |
| Restricted | | **19,963,193** | (75,223,604) | **216,061,333** | 187,200,507 | **236,024,526** | 111,976,903 |
| Unrestricted | | **-** | - | **(10,246,487)** | 5,662,075 | **(10,246,487)** | 5,662,075 |
| Total net assets | | **20,076,526** | (75,078,101) | **206,079,498** | 193,154,850 | **226,156,024** | 118,076,749 |
| Total liabilities and net assets | $ | **136,442,932** | 47,421,304 | **1,525,065,729** | 1,039,643,360 | **1,661,508,661** | 1,087,064,664 |

## Financial Analysis of the Authority as a Whole - continued

**Changes in Net Assets:** The Authority's change in net assets for fiscal year 2008 was an increase of $108,079,275 (Table A-2). A significant portion, twelve percent (12%), of the Authority's revenue comes from Tax Revenue. Twelve percent (12%) comes from other operating grants and contributions, and six percent (6%) from interest and investment income. Fifty-three percent (53%) comes from state general fund appropriations, and charges for services and other revenue comprise the remaining seventeen percent (17%) of total revenue.

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

| | | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Revenues: | | | | | | | |
| Program | $ | **13,614,678** | 6,041,563 | **51,922,659** | 33,949,508 | **65,537,337** | 39,991,071 |
| General | | **128,361,086** | 23,207,646 | **37,021,961** | 42,680,497 | **165,383,047** | 65,888,143 |
| Total revenues | | **141,975,764** | 29,249,209 | **88,944,620** | 76,630,005 | **230,920,384** | 105,879,214 |
| Expenses | | **39,895,843** | 29,628,373 | **82,945,266** | 64,585,506 | **122,841,109** | 94,213,879 |
| Net revenues (loss) before transfers and reversions | | **102,079,921** | (379,164) | **5,999,354** | 12,044,499 | **108,079,275** | 11,665,335 |
| Transfers and reversions | | **(6,925,294)** | (1,228,241) | **(6,925,294)** | 1,228,241 | **-** | - |
| (Decrease) increase in net assets | | **95,154,627** | (1,607,405) | **12,924,648** | 13,272,740 | **108,079,275** | 11,665,335 |
| Net assets, beginning of year | | **(75,078,101)** | (73,470,696) | **193,154,850** | 179,882,110 | **118,076,749** | 106,411,414 |
| Net assets, end of year | $ | **20,076,526** | (75,078,101) | **206,079,498** | 193,154,850 | **226,156,024** | 118,076,749 |

The significant growth in governmental net assets is the result of the Authority becoming the administrator of the Local Government Transportation Fund (otherwise known as GRIP II). This program is expected to fund 116 designated road projects throughout the State with total costs approximating $183 million. This program is expected to be funded over 3 years with the Authority having received $87.8 million in funds during FY 2008. Business-type (enterprise) activities continue to grow in terms of net assets because of the growth in loan volume and bond issuances in the PPRF program and the continual growth in the loan portfolio of the Authority's other revolving loan programs.

## Financial Analysis of the Authority as a Whole - continued

### Governmental-Type Activities

In FY 2008, revenues generated through State General Fund Appropriations increased by $103.2 million for the governmental-type activities. The majority of this increase, $87.8 million, is a result of receiving the seed money to begin the Local Government Transportation Fund (GRIP II) and start to fund the projects authorized under the legislation. Grant expenditures for this program amounted to $4.6 million but is expected to increase significantly in FY 2009. The Authority's total expenditures for governmental-type activities during the fiscal year 2008 were $40,094,539. The largest area of expenditures, $26,173,676, 65% of the total, was in the area of grant expense

### Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $82,746,570. The majority of business-type expenditures, $43,769,243, 53% of the total, was in the area of debt service. As noted above, expenditures and revenues increased due to the growth in the PPRF program.

Within the operating cost category, salaries and benefits comprise three percent (3%) of the total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were seven percent (7%) of the total expenditures.

### Capital Assets and Debt Administration

At the end of fiscal year 2008, the Authority has invested, net of depreciation, a total of $264,252 in capital assets in business-type activities and $113,333 in capital assets for governmental-type activities. During FY 2008, capital outlay expenditures totaled $4,722. This amount represents payment of software upgrades to the Authority's new project database program which was completed in early FY 2008. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

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

### Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2008, the total amount outstanding was $1.16 million (excluding the $1.520 billion in GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

During the fiscal year, the Authority issued $391.2 million in PPRF debt, primarily to directly fund loans, reimburse the PPRF loan fund for loans already made or to advance refund certain earlier bond issues.

## Financial Analysis of the Authority as a Whole - continued

### Bond Ratings

The Authority's bond ratings are:

| | |
|---|---|
| Moody's | Aa2 |
| Standard & Poor's | AA+ |
| Fitch | AA |

## Economic Factors and Next Year's Budgets and Rates

The FY 2008 budget provides for the Authority's administration of six programs paid from different sources of revenue:

- Operation of the PPRF program, funded from Governmental Gross Receipts tax receipts and cigarette tax revenue;
- Administration of the Water Trust Board, funded from interest earnings on the investments of the Water Project Fund.
- Water and Wastewater Grant Fund (W/WWGF) program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) program operations, funded from the federal capitalization grant;
- The Local Governments Planning Fund, funded from the Water Planning Fund;
- The Economic Development Fund, funded from administrative fees and cigarette tax revenue.

The Authority's primary operating budget for FY2008 was $6,667,847, compared to the FY2007 budget of $6,649,027, a 0.3% increase. This nominal change in the budget reflected some increased staffing level offset by some efficiencies being realized through the addition of in-house counsel.

## Contacting the Authority's Financial Management

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

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

# FINANCIAL STATEMENTS

**AS OF JUNE 30, 2008**

| | | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Cash and equivalents: | | | | |
| Unrestricted | $ | 27,961,097 | 68,229,027 | 96,190,124 |
| Restricted | | 102,852,041 | 300,904,459 | 403,756,500 |
| Receivables: | | | | |
| Tax revenue | | 643,692 | 7,424,228 | 8,067,920 |
| Interest | | 18,210 | 8,347,617 | 8,365,827 |
| Grant and other | | 239,530 | 6,958,365 | 7,197,895 |
| Due from other funds (Note 4) [Internal Balances] | | - | 1,110,138 | 1,110,138 |
| Administrative fees receivable | | 73 | 708,654 | 708,727 |
| Loans receivable, net of allowance (Note 3) | | 2,552,905 | 1,040,185,642 | 1,042,738,547 |
| Restricted asset - escrow | | - | 80,877,446 | 80,877,446 |
| Capital assets, net of depreciation (Note 6) | | 113,333 | 264,652 | 377,985 |
| Deferred costs, net of accumulated amortization | | 2,062,051 | 10,528,699 | 12,590,750 |
| Other assets | | - | 51,442 | 51,442 |
| **TOTAL ASSETS** | $ | 136,442,932 | 1,525,590,369 | 1,662,033,301 |
| **LIABILITIES:** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable and accrued liabilities | $ | 138,328 | 1,971,625 | 2,109,953 |
| Accrued payroll | | 11,702 | 100,160 | 111,862 |
| Compensated absences (Note 12) | | - | 200,236 | 200,236 |
| Notes payable (Note 9) | | 1,704,789 | - | 1,704,789 |
| Funds held for others | | - | 197,721,700 | 197,721,700 |
| Accrued interest | | 615,564 | 3,269,007 | 3,884,571 |
| Due to other state agencies (Note 5) | | - | 1,075,831 | 1,075,831 |
| Due to other funds (Note 5) [Internal Balances] | | 1,110,138 | - | 1,110,138 |
| Debt service payable | | 5,294 | 61,090,830 | 61,096,124 |
| Bonds payable, current, net (Note 8) | | 5,712,000 | 58,082,000 | 63,794,000 |
| | | 9,297,815 | 323,511,389 | 332,809,204 |
| **Noncurrent liabilities:** | | | | |
| Bonds payable, non-current, net of bond discount/premium (Note 8) | | 107,068,591 | 995,999,482 | 1,103,068,073 |
| | | 107,068,591 | 995,999,482 | 1,103,068,073 |
| **TOTAL LIABILITIES** | | 116,366,406 | 1,319,510,871 | 1,435,877,277 |
| **NET ASSETS:** | | | | |
| Invested in capital assets | | 113,333 | 264,652 | 377,985 |
| Restricted for: | | | | |
| Debt service | | (105,894,139) | - | (105,894,139) |
| Program funds | | 125,857,332 | 216,061,333 | 341,918,665 |
| Unrestricted | | - | (10,246,487) | (10,246,487) |
| **TOTAL NET ASSETS** | | 20,076,526 | 206,079,498 | 226,156,024 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 136,442,932 | 1,525,590,369 | 1,662,033,301 |

**YEAR ENDED JUNE 30, 2008**

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **EXPENSES:** | | | |
| Capital financing | $ 39,895,843 | 82,945,266 | 122,841,109 |
| **PROGRAM REVENUES:** | | | |
| Charges for services | - | 38,327,432 | 38,327,432 |
| Operating grants and contributions | 13,614,678 | 13,595,227 | 27,209,905 |
| **NET PROGRAM EXPENSES** | (26,281,165) | (31,022,607) | (57,303,772) |
| **GENERAL REVENUES:** | | | |
| Governmental gross receipts and gross receipts taxes | - | 27,198,766 | 27,198,766 |
| Investment earnings | 4,702,048 | 9,823,195 | 14,525,243 |
| **TOTAL GENERAL REVENUES** | 4,702,048 | 37,021,961 | 41,724,009 |
| **TRANSFERS** | | | |
| State General Fund Appropriations | 123,659,038 | - | 123,659,038 |
| Internal | (6,925,294) | 6,925,294 | - |
| **CHANGE IN NET ASSETS** | 95,154,627 | 12,924,648 | 108,079,275 |
| **NET ASSETS, BEGINNING OF FISCAL YEAR** | (75,078,101) | 193,154,850 | 118,076,749 |
| **NET ASSETS, END OF FISCAL YEAR** | $ 20,076,526 | 206,079,498 | 226,156,024 |

AS OF JUNE 30, 2008

| | | Economic Development Fund | UNM Health Sciences Fund | Water Project Fund |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Unrestricted: | | | | |
| Cash and cash equivalents | $ | 10,390,827 | 44,383 | 2,816,927 |
| Receivables: | | | | |
| Tax receivable | | - | - | - |
| Interest | | 11,971 | - | - |
| Other receivables | | - | 239,530 | 73 |
| Loans receivable | | 1,825,254 | - | 316,651 |
| | | 12,228,052 | 283,913 | 3,133,651 |
| Restricted: | | | | |
| Cash and cash equivalents held for others by trustee: | | | | |
| Debt service | | - | - | - |
| Bond reserve | | - | 1,326,996 | - |
| Investments | | - | - | 6,740,826 |
| **TOTAL ASSETS** | $ | 12,228,052 | 1,610,909 | 9,874,477 |
| **LIABILITIES:** | | | | |
| Accounts payable | $ | 11,208 | - | 21,600 |
| Debt service payable | | - | - | 5,294 |
| Notes payable | | - | - | - |
| Due to other funds | | 1,013,246 | - | 28,106 |
| **TOTAL LIABILITIES** | | 1,024,454 | - | 55,000 |
| **FUND BALANCES:** | | | | |
| Reserved for debt service | | - | 1,610,909 | - |
| Unreserved: | | | | |
| Special revenue funds | | 11,203,598 | - | 9,819,477 |
| **TOTAL FUND BALANCES** | | 11,203,598 | 1,610,909 | 9,819,477 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ | 12,228,052 | 1,610,909 | 9,874,477 |

| LGTF (GRIP II) | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| - | 14,708,960 | 27,961,097 |
| - | 643,692 | 643,692 |
| - | 6,239 | 18,210 |
| - | - | 239,603 |
| - | 411,000 | 2,552,905 |
| - | 15,769,891 | 31,415,507 |
| - | 645,398 | 645,398 |
| - | - | 1,326,996 |
| 86,071,771 | 8,067,050 | 100,879,647 |
| 86,071,771 | 24,482,339 | 134,267,548 |
| 1,273 | 115,949 | 150,030 |
| - | - | 5,294 |
| - | 1,704,789 | 1,704,789 |
| 52,961 | 15,825 | 1,110,138 |
| 54,234 | 1,836,563 | 2,970,251 |
| 86,017,537 | 11,389,885 | 99,018,331 |
| - | 11,255,891 | 32,278,966 |
| 86,017,537 | 22,645,776 | 131,297,297 |
| 86,071,771 | 24,482,339 | 134,267,548 |

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

**YEAR ENDED JUNE 30, 2008**

| | | |
|---|---|---|
| **Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)** | $ | 131,297,297 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | | |
| The cost of capital assets is | | 262,399 |
| Accumulated depreciation is | | (149,066) |
| Total capital assets, net of depreciation | | 113,333 |
| Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds, amortized over the life of the respective bond. Deferred costs, net, are | | 2,062,051 |
| Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | | |
| Long-term and other liabilities at year end consist of: | | |
| Bonds payable, net of premium of $1,899,591 | | (112,780,591) |
| Accrued interest payable | | (615,564) |
| Total long-term and other liabilities | | (113,396,155) |
| **Net assets of governmental activities (Statement of Net Assets)** | $ | 20,076,526 |

YEAR ENDED JUNE 30, 2008

| | | Economic Development Fund | UNM Health Sciences Fund |
|---|---|---|---|
| **REVENUES:** | | | |
| Grant revenue | $ | - | - |
| Interest on loans | | 307,068 | - |
| Interest on investments | | - | 66,787 |
| Other revenue | | - | - |
| **TOTAL REVENUES** | | 307,068 | 66,787 |
| **EXPENDITURES:** | | | |
| Current: | | | |
| Administrative fee | | - | 142,411 |
| Professional services | | 42,052 | 48,886 |
| Salaries and fringe benefits | | 130,675 | - |
| In-state travel | | 8,811 | - |
| Out-of-state travel | | 5,085 | - |
| Maintenance and repairs | | 1,490 | - |
| Operating costs | | 41,798 | - |
| Grant expenses | | - | - |
| Capital outlay | | 1,957 | - |
| Debt service - principal | | - | 3,220,000 |
| Debt service - interest | | - | 1,322,315 |
| **TOTAL EXPENDITURES** | | 231,868 | 4,733,612 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | | 75,200 | (4,666,825) |
| **OTHER FINANCING SOURCES (USES):** | | | |
| State General Fund appropriations | | 7,100,000 | 9,505,445 |
| Transfers (to) from other funds | | - | (1,640,888) |
| Transfers (to) other state agencies | | - | (3,647,633) |
| **NET OTHER FINANCING SOURCES (USES)** | | 7,100,000 | 4,216,924 |
| **NET CHANGE IN FUND BALANCES** | | 7,175,200 | (449,901) |
| **FUND BALANCES, June 30, 2007** | | 4,028,398 | 2,060,810 |
| **FUND BALANCES, June 30, 2008** | $ | 11,203,598 | 1,610,909 |

See Independent Auditors' Report and Notes to Financial Statements.

| Water Project Fund | LGTF (GRIP II) | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| 13,614,446 | - | - | 13,614,446 |
| - | - | 28,605 | 335,673 |
| 430,665 | 2,867,859 | 1,001,064 | 4,366,375 |
| 232 | - | - | 232 |
| 14,045,343 | 2,867,859 | 1,029,669 | 18,316,726 |
| - | - | 35,141 | 177,552 |
| 126,058 | 1,111 | 166,526 | 384,633 |
| 221,742 | 42,908 | 108,992 | 504,317 |
| 10,209 | 331 | 2,262 | 21,613 |
| 670 | 1,962 | 364 | 8,081 |
| 1,950 | 277 | 1,539 | 5,256 |
| 50,589 | 7,645 | 27,284 | 127,316 |
| 19,207,567 | 4,596,088 | 2,369,981 | 26,173,636 |
| 1,521 | - | 1,244 | 4,722 |
| - | - | 2,486,000 | 5,706,000 |
| - | - | 4,144,149 | 5,466,464 |
| 19,620,306 | 4,650,322 | 9,343,482 | 38,579,590 |
| (5,574,963) | (1,782,463) | (8,313,813) | (20,262,864) |
| 7,847,868 | 87,800,000 | 11,405,725 | 123,659,038 |
| - | - | (5,284,406) | (6,925,294) |
| - | - | (3,376,935) | (7,024,568) |
| 7,847,868 | 87,800,000 | 2,744,384 | 109,709,176 |
| 2,272,905 | 86,017,537 | (5,569,429) | 89,446,312 |
| 7,546,572 | - | 28,215,205 | 41,850,985 |
| 9,819,477 | 86,017,537 | 22,645,776 | 131,297,297 |

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

**YEAR ENDED JUNE 30, 2008**

| | |
|---|---|
| **Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)** | $ 89,446,312 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease (increase) in the liabilities for the fiscal year was: | |
| Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities, these payments are reported as a reduction of the liability. In the current period, these principal payment amounts were | 5,706,000 |
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was | 52,274 |

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

**YEAR ENDED JUNE 30, 2008**

| | | | |
|---|---|---|---|
| Change from prior year in amortization of bond issuance costs: | | | |
| Deferred issuance costs FY07 (p. 17 PY) | $ | 2,251,383 | |
| Deferred issuance costs FY08 (p. 15 CY) | | 2,062,051 | |
| | | | (189,332) |
| Change from prior year in amorization of bond premium/discount: | | | |
| Amortization of bond premium/discount FY07 (p. 72 PY) | | 2,071,134 | |
| Amortization of bond premium/discount FY08 (p. 71 CY) | | 1,899,591 | |
| | | | 171,543 |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were: | | | |
| Capital outlay | | 4,722 | |
| Depreciation expense | | (36,892) | |
| Excess of depreciation expense over capital outlay | | | (32,170) |
| Decrease in capital assets | | | - |
| **Change in net assets of governmental activities (Statement of Activities)** | | | $ 95,154,627 |

**AS OF JUNE 30, 2008**

| | | Operating Fund | Public Project Revolving Fund | New Mexico Drinking Water Revolving Loan Fund | GRIP Administrative Fund | Primary Care Capital Fund |
|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | |
| Current: | | | | | | |
| Cash and cash equivalents | $ | - | 54,928,491 | 7,757,830 | 1,961,825 | - |
| Receivables: | | | | | | |
| Tax revenue | | - | 7,394,802 | 3,460 | - | 25,966 |
| Interest | | - | 8,236,381 | 109,542 | - | - |
| Grant and other | | - | 3,720,220 | 1,897,283 | 1,340,862 | - |
| Due from other state agencies | | - | - | - | - | - |
| Due from other funds | | - | 2,152,874 | - | - | - |
| Administrative fees receivable | | - | 574,782 | 13,311 | 120,407 | - |
| Total current assets | | - | 77,007,550 | 9,781,426 | 3,423,094 | 25,966 |
| Loans receivable, net of allowance | | - | 1,001,731,515 | 30,907,764 | - | 7,176,671 |
| Securities | | - | - | - | - | - |
| Restricted assets - cash and cash equivalents | | - | 284,148,652 | 11,369,863 | - | 2,141,699 |
| Escrow | | - | 80,877,446 | - | - | - |
| Capital Assets: | | | | | | |
| Depreciable property and equipment, net | | - | 188,450 | 11,798 | 53,629 | 1,339 |
| Deferred charges | | - | 10,528,699 | - | - | - |
| Other assets | | - | 51,442 | - | - | - |
| Total non-current assets | | - | 1,377,526,204 | 42,289,425 | 53,629 | 9,319,709 |
| **TOTAL ASSETS** | $ | - | 1,454,533,754 | 52,070,851 | 3,476,723 | 9,345,675 |
| **LIABILITIES:** | | | | | | |
| **Current liabilities:** | | | | | | |
| Accounts payable and other liabilities | $ | - | 1,627,309 | 309,808 | 9,397 | 4,416 |
| Accrued payroll, fringe benefits and compensated absences | | - | 271,336 | 6,064 | 15,735 | 1,208 |
| Accrued interest payable | | - | 3,248,343 | - | - | - |
| Debt service payable | | - | 60,488,368 | 250,746 | - | 344,498 |
| Funds held for others | | - | 196,132,082 | 115,736 | - | 1,223,090 |
| Due to other state agencies | | - | - | 1,075,831 | - | - |
| Due to other funds | | - | 281,851 | 52,734 | 82,247 | 118,307 |
| Line of Credit | | - | - | - | - | - |
| Bonds payable, current, net | | - | 57,957,000 | - | - | - |
| | | - | 320,006,289 | 1,810,919 | 107,379 | 1,691,519 |
| **Noncurrent liabilities:** | | | | | | |
| Bonds payable, noncurrent, net | | - | 993,874,482 | - | - | - |
| | | - | 993,874,482 | - | - | - |
| **TOTAL LIABILITIES** | | - | 1,313,880,771 | 1,810,919 | 107,379 | 1,691,519 |
| **NET ASSETS:** | | | | | | |
| Invested in capital assets | | - | 188,450 | 11,798 | 53,629 | 1,339 |
| Restricted for: | | | | | | |
| Program funds | | - | 140,464,533 | 50,248,134 | - | 7,652,817 |
| Unrestricted | | - | - | - | 3,315,715 | - |
| **TOTAL NET ASSETS** | | - | 140,652,983 | 50,259,932 | 3,369,344 | 7,654,156 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | - | 1,454,533,754 | 52,070,851 | 3,476,723 | 9,345,675 |

| Behavioral Health Capital Fund | Child Care Revolving Loan Fund | Local Road Fund | Cigarette Tax Revenue Bond | NM Tax Credits | Energy Efficiency | Total |
|---|---|---|---|---|---|---|
| 165,350 | - | 3,415,530 | - | - | - | 68,229,026 |
| - | - | - | - | - | - | 7,424,228 |
| 1,694 | - | - | - | - | - | 8,347,617 |
| - | - | - | - | - | - | 6,958,365 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 2,152,874 |
| 154 | - | - | - | - | - | 708,654 |
| 167,198 | - | 3,415,530 | - | - | - | 93,820,764 |
| 369,692 | - | - | - | - | - | 1,040,185,642 |
| - | - | - | - | - | - | - |
| 23,549 | 275,058 | - | 2,945,638 | - | - | 300,904,459 |
| - | - | - | - | - | - | 80,877,446 |
| | | | | | | - |
| 2,341 | 1,790 | 1,508 | - | 2,694 | 1,102 | 264,651 |
| - | - | - | - | - | - | 10,528,699 |
| - | - | - | - | - | - | 51,442 |
| 395,582 | 276,848 | 1,508 | 2,945,638 | 2,694 | 1,102 | 1,432,812,339 |
| 562,780 | 276,848 | 3,417,038 | 2,945,638 | 2,694 | 1,102 | 1,526,633,103 |
| 1,301 | - | - | - | 19,395 | - | 1,971,626 |
| 447 | 129 | 306 | - | 5,125 | 47 | 300,397 |
| - | - | - | 20,664 | - | - | 3,269,007 |
| 7,218 | - | - | - | - | - | 61,090,830 |
| 792 | 250,000 | - | - | - | - | 197,721,700 |
| - | - | - | - | - | - | 1,075,831 |
| 3,648 | 82,784 | 1,839 | - | 404,894 | 14,432 | 1,042,736 |
| - | - | - | - | - | - | - |
| - | - | - | 125,000 | - | - | 58,082,000 |
| 13,406 | 332,913 | 2,145 | 145,664 | 429,414 | 14,479 | 324,554,127 |
| - | - | - | 2,125,000 | - | - | 995,999,482 |
| - | - | - | 2,125,000 | - | - | 995,999,482 |
| 13,406 | 332,913 | 2,145 | 2,270,664 | 429,414 | 14,479 | 1,320,553,609 |
| 2,341 | 1,790 | 1,508 | - | 2,694 | 1,102 | 264,651 |
| 547,033 | (57,855) | 1,493,404 | 471,402 | - | (14,479) | 200,804,989 |
| - | - | 1,919,981 | 203,572 | (429,414) | - | 5,009,854 |
| 549,374 | (56,065) | 3,414,893 | 674,974 | (426,720) | (13,377) | 206,079,494 |
| 562,780 | 276,848 | 3,417,038 | 2,945,638 | 2,694 | 1,102 | 1,526,633,103 |

YEAR ENDED JUNE 30, 2008

| | Operating Fund | Public Project Revolving Fund | New Mexico Drinking Water Revolving Loan Fund | GRIP Administrative Fund | Primary Care Capital Fund |
|---|---|---|---|---|---|
| **OPERATING REVENUES:** | | | | | |
| Tax revenue | $ - | 27,169,340 | - | - | - |
| Federal grant revenue | - | - | 13,595,226 | - | - |
| Administrative fees | - | 2,786,246 | 59,173 | 2,161,017 | - |
| Interest on loans | - | 32,144,961 | 441,718 | - | - |
| Interest on investments | - | 8,436,481 | 807,203 | 62,652 | 295,078 |
| **TOTAL OPERATING REVENUES** | - | 70,537,028 | 14,903,320 | 2,223,669 | 295,078 |
| **OPERATING EXPENSES:** | | | | | |
| Grant expense | - | 24,900 | - | - | - |
| Bond issuance costs | - | 543,018 | - | - | - |
| Administrative fees | - | 132,638 | - | - | - |
| Professional services | - | 2,953,663 | 220,777 | 232,293 | 82,116 |
| Salaries and fringe benefits | - | 1,907,427 | 204,503 | 363,680 | 51,642 |
| In-state travel | - | 34,379 | 5,163 | 11,168 | 1,246 |
| Out of state travel | - | 20,129 | 4,656 | 5,779 | 787 |
| Utilities | - | - | - | - | 119 |
| Maintenance and repairs | - | 19,499 | 6,834 | 4,521 | 458 |
| Supplies | - | 1,509 | 3,859 | 5,043 | 115 |
| Operating costs | 1 | 557,939 | 131,638 | 94,382 | 9,527 |
| Depreciation | - | 33,647 | 9,197 | 12,471 | 160 |
| Debt service - interest expense | - | 43,639,509 | - | - | - |
| | - | | | | |
| **TOTAL OPERATING EXPENSES** | 1 | 49,868,257 | 586,627 | 729,337 | 146,170 |
| **OPERATING INCOME (LOSS)** | (1) | 20,668,771 | 14,316,693 | 1,494,332 | 148,908 |
| **NON-OPERATING REVENUES (EXPENSES):** | | | | | |
| Miscellaneous revenue | - | - | 3,460 | - | 25,966 |
| **TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS** | (1) | 20,668,771 | 14,320,153 | 1,494,332 | 174,874 |
| **TRANSFERS:** | | | | | |
| Transfers in (out) | (2,091,026) | 6,657,839 | 2,089,080 | (861,480) | - |
| Transfers from (to) other state agencies | - | (25,991,563) | (4,984,752) | - | - |
| Transfers from (to) local governments | - | - | - | - | - |
| **TOTAL TRANSFERS** | (2,091,026) | (19,333,724) | (2,895,672) | (861,480) | - |
| **INCREASE (DECREASE) IN NET ASSETS** | (2,091,027) | 1,335,047 | 11,424,481 | 632,852 | 174,874 |
| **TOTAL NET ASSETS, June 30, 2007** | 2,091,027 | 139,317,936 | 38,835,451 | 2,736,492 | 7,479,282 |
| **TOTAL NET ASSETS, June 30, 2008** | $ - | 140,652,983 | 50,259,932 | 3,369,344 | 7,654,156 |

| Behavioral Health Capital Fund | Child Care Revolving Loan Fund | Local Road Fund | Cigarette Tax Revenue Bond | NM Tax Credits | Energy Efficiency | Total |
|---|---|---|---|---|---|---|
| - | - | - | - | - | - | 27,169,340 |
| - | - | - | - | - | - | 13,595,226 |
| 989 | - | 722,444 | - | - | - | 5,729,869 |
| 10,884 | - | - | - | - | - | 32,597,563 |
| 7,025 | 10,603 | 94,540 | 109,611 | - | - | 9,823,193 |
| 18,898 | 10,603 | 816,984 | 109,611 | - | - | 88,915,191 |
| - | - | 181,475 | - | - | - | 206,375 |
| - | - | - | - | - | - | 543,018 |
| - | - | - | - | - | - | 132,638 |
| 5,064 | 2,785 | 2,330 | 168 | 79,823 | 1,568 | 3,580,587 |
| 20,584 | 4,840 | 8,331 | - | 136,589 | 957 | 2,698,553 |
| 823 | 23 | 692 | - | 5,880 | 68 | 59,442 |
| 614 | (56) | (20) | - | - | - | 31,889 |
| 77 | 7 | 18 | - | 602 | 2 | 825 |
| 276 | 161 | 149 | - | 1,172 | 65 | 33,135 |
| 695 | (8) | - | - | - | - | 11,213 |
| 5,174 | 2,740 | 3,937 | - | 38,874 | 1,227 | 845,439 |
| 320 | 160 | 160 | - | 320 | 160 | 56,595 |
| - | - | - | 129,734 | - | - | 43,769,243 |
| 33,627 | 10,652 | 197,072 | 129,902 | 263,260 | 4,047 | 51,968,952 |
| (14,729) | (49) | 619,912 | (20,291) | (263,260) | (4,047) | 36,946,239 |
| - | - | - | - | - | - | 29,426 |
| (14,729) | (49) | 619,912 | (20,291) | (263,260) | (4,047) | 36,975,665 |
| 38,215 | - | 875,000 | 217,666 | - | - | 6,925,294 |
| - | - | - | - | - | - | (30,976,315) |
| - | - | - | - | - | - | - |
| 38,215 | - | 875,000 | 217,666 | - | - | (24,051,021) |
| 23,486 | (49) | 1,494,912 | 197,375 | (263,260) | (4,047) | 12,924,644 |
| 525,888 | (56,016) | 1,919,981 | 477,599 | (163,460) | (9,330) | 193,154,850 |
| 549,374 | (56,065) | 3,414,893 | 674,974 | (426,720) | (13,377) | 206,079,494 |

| YEAR ENDED JUNE 30, 2008 | | Operating Fund | Public Project Revolving Fund | New Mexico Drinking Water Revolving Loan Fund | GRIP Administrative Fund |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | |
| Cash paid for employee services | $ | (210,737) | (4,726,801) | (204,967) | (354,408) |
| Cash paid to vendors for services | | (2,149,468) | (6,775,058) | (213,690) | (292,758) |
| Bond issuance costs | | - | (543,018) | - | - |
| Interest expense paid | | - | (33,451,903) | - | - |
| Grants awarded | | - | (24,900) | - | - |
| Tax revenue | | - | 27,169,340 | - | - |
| Cash received from federal government for revolving loans | | - | - | 13,234,531 | - |
| Interest income received | | - | 40,330,584 | 1,248,921 | 62,652 |
| Administrative fees received | | 1,914,100 | 102,328 | 59,173 | 1,876,999 |
| **NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES** | | (446,105) | 22,080,572 | 14,123,968 | 1,292,485 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:** | | | | | |
| Operating transfers, net | | - | 6,657,839 | 2,089,080 | (861,480) |
| Cash paid to subrecipients for services | | - | (25,796,810) | (4,984,752) | - |
| Cash provided (used) by funds held for others | | - | 121,863,290 | (279,814) | - |
| **NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES** | | - | 102,724,319 | (3,175,486) | (861,480) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | | | |
| Securities | | - | - | - | - |
| Escrow | | - | 2,715,627 | - | - |
| Loans funded | | - | (386,074,195) | (10,298,773) | - |
| Loan payments received | | - | 56,098,407 | 962,520 | - |
| Bonds issued | | - | 391,245,000 | - | - |
| Payment of bonds | | - | (37,660,000) | - | - |
| Debt service | | - | 17,152,452 | 51,994 | - |
| Line of credit | | - | (31,338,974) | - | - |
| Capital asset purchases | | - | (19,547) | - | (7,247) |
| **NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES** | | - | 12,118,770 | (9,284,259) | (7,247) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | (446,105) | 136,923,661 | 1,664,223 | 423,758 |
| **CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2007** | | 446,105 | 202,153,482 | 17,463,470 | 1,538,067 |
| **CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2008** | $ | - | 339,077,143 | 19,127,693 | 1,961,825 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASHED USED BY OPERATING ACTIVITIES - OPERATING INCOME:** | $ | (1) | (1,335,047) | 11,424,481 | 632,852 |
| Adjustments to operating income: | | | | | |
| Depreciation and amortization | | - | 33,647 | 9,197 | 12,471 |
| Net transfers | | (2,091,026) | 19,333,724 | 2,895,672 | 861,480 |
| (Increase) decrease in prepaids and receivables | | 1,914,100 | (7,187,467) | 240,241 | (284,018) |
| Increase (decrease) in payables and other accrued liabilities | | (269,178) | 8,565,621 | (445,623) | 69,700 |
| **NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES** | $ | (446,105) | 22,080,572 | 14,123,968 | 1,292,485 |

| Primary Care Capital Fund | Behavioral Health Capital Fund | Child Care Revolving Loan Fund | Local Road Fund | Cigarette Tax Revenue Bond | NM Tax Credits Fund | Energy Efficiency Fund | Total |
|---|---|---|---|---|---|---|---|
| (25,336) | (20,631) | (4,910) | (8,798) | - | (132,188) | (909) | (5,689,685) |
| (14,249) | (17,122) | 5,284 | (7,235) | (167) | 124,689 | 1,120 | (9,338,654) |
| - | - | - | - | - | - | - | (543,018) |
| - | - | - | - | (130,882) | - | - | (33,582,785) |
| - | - | - | (181,475) | - | - | - | (206,375) |
| - | - | - | - | - | - | - | 27,169,340 |
| - | - | - | - | - | - | - | 13,234,531 |
| 289,550 | 18,066 | 10,603 | 94,540 | 109,611 | - | - | 42,164,527 |
| - | 989 | - | 722,444 | - | - | - | 4,676,033 |
| 249,965 | (18,698) | 10,977 | 619,476 | (21,438) | (7,499) | 211 | 37,883,914 |
| - | 38,215 | - | 875,000 | 217,666 | - | - | 9,016,320 |
| - | - | - | - | - | - | - | (30,781,562) |
| 1,200,778 | 25 | - | - | - | - | - | 122,784,279 |
| 1,200,778 | 38,240 | - | 875,000 | 217,666 | - | - | 101,019,037 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | 2,715,627 |
| (3,200,000) | - | - | - | - | - | - | (399,572,968) |
| 327,108 | 31,296 | - | - | - | - | - | 57,419,331 |
| - | - | - | - | - | - | - | 391,245,000 |
| - | - | - | - | (125,000) | - | - | (37,785,000) |
| 284,698 | - | - | - | - | - | - | 17,489,144 |
| - | - | - | - | - | - | - | (31,338,974) |
| (277) | (463) | (376) | (299) | - | (559) | (211) | (28,979) |
| (2,588,471) | 30,833 | (376) | (299) | (125,000) | (559) | (211) | 143,181 |
| (1,137,728) | 50,375 | 10,601 | 1,494,177 | 71,228 | (8,058) | - | 139,046,132 |
| 3,279,427 | 138,524 | 264,457 | 1,921,353 | 2,874,410 | - | - | 230,079,295 |
| 2,141,699 | 188,899 | 275,058 | 3,415,530 | 2,945,638 | (8,058) | - | 369,125,427 |
| 174,874 | 23,486 | (49) | 1,494,912 | 197,375 | (263,260) | (4,047) | 12,345,576 |
| 160 | 320 | 160 | 160 | - | 320 | 160 | 56,595 |
| - | (38,215) | - | (875,000) | (217,666) | - | - | 19,868,969 |
| (5,527) | 157 | - | - | - | - | - | (5,322,514) |
| 80,458 | (4,446) | 10,866 | (596) | (1,147) | 255,441 | 4,098 | 8,265,194 |
| 249,965 | (18,698) | 10,977 | 619,476 | (21,438) | (7,499) | 211 | 37,883,914 |

## Statement of Fiduciary Assets and Liabilities - Agency Funds

**AS OF JUNE 30, 2007**

| | | Agency Funds |
|---|---|---|
| **ASSETS:** | | |
| Cash at Trustee: | | |
| Program funds | $ | 143,033,858 |
| Expense funds | | 237,132,982 |
| Bond reserve funds | | 6,000 |
| **TOTAL ASSETS** | $ | 380,172,840 |
| **LIABILITIES:** | | |
| Accounts payable | $ | 3,923,929 |
| Debt service payable | | 329,378,837 |
| Funds held for the New Mexico Department of Transportation | | 46,870,074 |
| **TOTAL LIABILITIES** | $ | 380,172,840 |

## NATURE OF ORGANIZATION

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

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

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

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

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

The Authority is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

The financial reporting entity as defined by GASB No. 39 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

- **Basic Financial Statements**

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipt taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized when the underlying transaction has occurred. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting**

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

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

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

**Governmental Fund Types** - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

- Economic Development Fund
- UNM Health Sciences Fund
- Water Project Fund
- LGTF (GRIP II)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

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

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

### Special Revenue Funds - continued

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

### Special Revenue Funds - continued

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

Special Revenue Fund – Local Government Transportation Fund. In 2007, New Mexico Legislature authorized the establishment of the Local Government Transportation Fund within the New Mexico Finance Authority. This fund provides funding for 116 local government transportation projects as approved by the legislature. The Fund consists of general fund appropriations and severance tax bond proceeds appropriated to the fund in fiscal years 2007 through 2009. Projects are funded based upon project readiness. The interest earnings in the fund are subject to appropriation by legislature.

Special Revenue Fund – Dairy Biomass Loan Fund. This fund was created by the 2006 Legislature to convert dairy waste to energy statewide. The Authority is working with the New Mexico Energy, Minerals and Natural Resources Department to identify biomass projects that support renewable energy development.

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

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle. There was an additional bond issuance in September 2002 (2002A).

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

### Debt Service Funds - continued

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

### Debt Service Funds - continued

Debt Service Fund - State Capitol Improvement Financing Fund- continued. repair fund shall be distributed by the State Treasurer to the Authority, and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

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

Debt Service Fund - State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of 1) purchasing the National Education Association Building on South Capitol Street in Santa Fe, New Mexico, 2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico, and 3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition, to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may include the acquisition of the Public Employees

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

### Debt Service Funds - continued

Debt Service Fund - State Office Building Financing Fund - continued. Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

Debt Service Fund - UNM Health Sciences Fund. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.37% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.79% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

**Enterprise Funds** - continued

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

### Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund - continued. deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - Fund Accounting - continued**

### Enterprise Funds - continued

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

Enterprise Fund - Cigarette Tax Revenue Bond – Behavioral Health Capital Fund (BHCF). The BHCF was set up to provide funding for capital projects to non-profit providers to increase health care services to sick and indigent patients. The 2004 Legislature created this fund to provide low cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. The Authority was authorized to issue up to $2,500,000 in bonds, secured by a portion of the net cigarette tax receipts collected by the State and distributed to the Authority. A private placement of $2,500,000 in bonds was issued during fiscal year 2006.

Enterprise Fund – Local Transportation Infrastructure Fund (Local Road Fund). This fund was created to provide local government not eligible for Federal funding, whose needs have not been met by the existing Local Government Road Fund, with grants and low cost financial assistance for transportation projects. The program is jointly administered by the Authority and the NMDOT. The NMDOT determines feasibility and priority of recommended projects and the Authority makes loans and grants to the recommended projects. Grants are capped at 25 percent of the project cost.

Enterprise Fund – New Market Tax Credits Fund. During FY 2007 a team comprised of staff from the Authority, the New Mexico Economic Development Department and the City of Albuquerque successfully submitted an application for the federal New Market Tax Credits. Though it's a Limited Liability Company, Finance New Mexico LLC, the Authority has received an allocation of $110,000,000 to encourage capital infusion throughout New Mexico by providing private business greater access to capital in rural or undeserved areas of the state.. The status of these allocations is generally made in October and it is anticipated that the program would go through a "ramp up" period during the remainder of FY 2008. The fund was created to accumulate costs associated with the application process and other program start-up costs. Ultimately, this program will be accounted for and operated as an LLC separate and distinct from the Authority.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Basis of Presentation - Fund Accounting - continued**

**Enterprise Funds - continued**

Enterprise Fund – Energy Efficiency Fund. This fund was established as an innovative financing mechanism for state agencies, universities and public schools to fund and implement renovations to existing facilities that will promote renewable energy and other energy efficiency improvements to these facilities. This fund will be jointly administered by the Authority and the Department of Energy, Minerals and Natural Resources. The Authority will issue PPRF bonds that are backed by State GRT and sized to the cash flow energy savings generated from the projects. This program is in a start-up phase and as yet, has not issued any bonds.

The Authority's fiduciary funds are agency funds. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (Note 13).

- **Measurement Focus and Basis of Accounting**

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Measurement Focus and Basis of Accounting - continued**

enough thereafter to be used to pay liabilities of the current period). For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2008 was $46,538,759.

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

When both restricted and unrestricted net assets are available for expenses, unrestricted funds are applied first.

- **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer. The cash on deposit with the State Treasurer is invested in a money market fund registered with the Securities and Exchange Commission rated AAAm by Standard & Poor's.

In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority.

- **Loans**

Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All significant loans are to

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Loans - continued**

governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no material loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on non-accrual status.

- **Allowance for Loan Losses**

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. At June 30, 2008, it was management's opinion that all governmental fund receivables, as well as outstanding receivables from the Drinking Water State Revolving Fund, Primary Care Capital Fund and Behavioral Health Capital Fund, were fully collectible and, therefore, no allowance was provided for at June 30, 2008. The Authority has not experienced any losses on its loan portfolio.

- **Restricted Assets**

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

- **Budgets and Budgetary Accounting**

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Capital Assets**

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $5,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

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

- **Income Taxes**

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

- **Compensated Absences**

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

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

- **Cash Flows**

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

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

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Bond Discounts, Premiums and Issuance Costs - continued**

costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

- **Fund Equity**

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

- **Net Assets**

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

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

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

**Unrestricted assets** represent liquid assets.

- **Use of Estimates**

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

- **Interfund and Interagency Transactions**

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Interfund and Interagency Transactions - continued**

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

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

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

| | | Book Balance | Bank Balance |
|---|---|---|---|
| Government-wide statement of net assets: | | | |
| State Treasurer Local Government Investment Pool | $ | 147,117,448 | 147,117,448 |
| The Primary Care Capital Fund held at the State Treasurer's Office | | 545,566 | 545,566 |
| State Treasurer's Office cash held at Bank of Albuquerque in money market accounts | | 21,600,027 | 21,600,027 |
| Bank of Albuquerque trust accounts | | 246,849,598 | 246,849,598 |
| Reserve on Bond Payable held in Bank of America | | 279,359 | 279,359 |
| Wells Fargo operating accounts (collateralized at 50%) | | 1,100,832 | 1,141,690 |
| Cash held at the Reserve | | 82,453,794 | 82,453,795 |
| | | 499,946,624 | 499,987,483 |
| Agency Fund: | | | |
| Money market accounts invested in Bank of Albuquerque | | 380,172,840 | 380,172,840 |
| | $ | 880,119,464 | 880,160,323 |

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

The Authority's State Treasurer funds are contained in the New Mexico *GROW* LGIP, a Securities and Exchange Commission registered money market fund rated AAAm by Standard & Poor's, and at June 30, 2008 are valued at $147,117,448, with a 46-day WAM.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The sources of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts that invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations.

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

**Credit Risk**. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government.

**Concentration of Credit Risk**. Concentration of credit risk is defined as investments of more than 5% in any one issuer.

**Interest Rate Risk**. Interest rate risk is the risk that interest rate fluctuations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the value of securities held in a collateral portfolio will decline if market interest rates rise. In this event, the financial institution is required to provide additional collateral necessary to comply with New Mexico State Statute. Therefore, funds are not susceptible to interest rate risk as they are all fully collateralized.

## 3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES

Loan receivable balances consist of the following at June 30, 2008:

| | |
|---|---|
| Enterprise funds: | |
| Public Projects Revolving Loan Fund, net of allowance of $1,067,970 | $ 1,001,731,515 |
| Drinking Water State Revolving Loan Fund | 30,907,764 |
| Primary Care Capital Fund | 7,176,671 |
| Behavioral Health Capital Fund | 369,692 |
| | 1,040,185,642 |
| Governmental funds: | |
| Smart Money Loans | 1,825,254 |
| C.O.P.S. | 411,000 |
| Water Trust Board Loan/Grants | 316,651 |
| | 2,552,905 |
| | $ 1,042,738,547 |

- **Public Projects Revolving Loan Fund**

The Public Projects Revolving Loan Fund loans receivable balance at June 30, 2008 is $1,001,731,515, net of an allowance for loan loss of $1,067,970, and consists of loans made to various entities.

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

| | Principal | Interest | Total |
|---|---|---|---|
| July 1, 2008 to June 30, 2009 | $ 63,106,681 | 37,947,082 | 101,053,763 |
| July 1, 2009 to maturity | 939,692,804 | 376,210,888 | 1,315,903,692 |
| | $ 1,002,799,485 | 414,157,970 | 1,416,957,455 |

## 3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued

- **Drinking Water State Revolving Loan Fund**

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

| | | Principal | Interest | Total |
|---|---|---|---|---|
| July 1, 2008 to June 30, 2009 | $ | 1,198,908 | 562,504 | 1,761,412 |
| July 1, 2009 to maturity | | 29,708,856 | 5,922,559 | 35,631,415 |
| | $ | 30,907,764 | 6,485,063 | 37,392,827 |

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

- **Primary Care Capital Fund**

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

| | | Principal | Interest | Total |
|---|---|---|---|---|
| July 1, 2008 to June 30, 2009 | $ | 915,959 | 206,455 | 1,122,414 |
| July 1, 2009 to maturity | | 6,260,712 | 1,211,732 | 7,472,444 |
| | $ | 7,176,671 | 1,418,187 | 8,594,858 |

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

## 3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued

- **Behavioral Health Capital Fund**

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

| | | Principal | Interest | Total |
|---|---|---|---|---|
| July 1, 2008 to June 30, 2009 | $ | 32,237 | 10,167 | 42,404 |
| July 1, 2009 to maturity | | 337,455 | 48,231 | 385,686 |
| | $ | 369,692 | 58,398 | 428,090 |

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

- **"SMART" Money Loans**

The "SMART" Money Loan Participation Program brings the Authority and "SMART Partner Banks" together as partners to share risk while lowering the overall cost of borrowing for the business by the Authority offering below-market rates on its portion of the loan to a New Mexico business. The Authority participates in 49% of the total loan amount. Interest rates range from 5% to 8%.

The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

| | | Principal | Interest | Total |
|---|---|---|---|---|
| July 1, 2008 to June 30, 2009 | $ | - | - | - |
| July 1, 2009 to maturity | | 1,825,254 | - | 1,825,254 |
| | $ | 1,825,254 | - | 1,825,254 |

No allowance for uncollectible loans has been established at this time. The loans are secured by commercial real estate mortgages.

## 3. LOANS RECEIVABLE - BUSINESS TYPE AND GOVERNMENTAL ACTIVITIES - continued

- **C.O.P.S.**

The C.O.P.S. loans vary, with interest rates ranging from 4.75% to 6.618%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

| | | Principal | Interest | Total |
|---|---|---|---|---|
| July 1, 2008 to June 30, 2009 | $ | 62,000 | 24,358 | 86,358 |
| July 1, 2009 to maturity | | 349,000 | 68,501 | 417,501 |
| | $ | 411,000 | 92,859 | 503,859 |

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

- **Water Trust Board Loan/Grants**

The Water Trust Board established a loan element whereby grantees are required to repay 10% of the total amount they receive. Interest rates vary, based on the borrower's ability to repay, but range from 4% to 5%.

The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

| | | Principal | Interest | Total |
|---|---|---|---|---|
| July 1, 2008 to June 30, 2009 | $ | 16,201 | - | 16,201 |
| July 1, 2009 to maturity | | 300,450 | - | 300,450 |
| | $ | 316,651 | - | 316,651 |

Allowance has not yet been established as these loans were established late in fiscal year 2008 and repayments have not been made. An appropriate allowance will be made in fiscal year 2009.

## 4. DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation.

Interfund receivables and payables as of June 30, 2008 consist of the following:

| | | Due to: Enterprise Funds Public Project Revolving Funds 200's |
|---|---|---|
| **Due From:** | | |
| Governmental Funds: | | |
| Metro Court | 304 | $ - |
| Water and Wastewater Grant | 307 | 6,707 |
| Water Project Fund | 309 | 28,106 |
| Emergency Drought Relief | 312 | - |
| Water Planning Grant | 313 | 9,118 |
| Economic Development | 314 | 1,013,246 |
| LGTF - GRIP II | 323 | 52,961 |
| Total Governmental Funds | | 1,110,138 |
| Enteprise Funds: | | |
| GRIP Fund | 104 | 82,247 |
| Drinking Water | 500 | 52,734 |
| Child Care | 319 | 82,784 |
| Behavioral Health | 311 | 3,648 |
| Local Road Fund | 504 | 1,839 |
| Primary Care | 501 | 118,307 |
| NM Tax Credit | 600 | 412,952 |
| Energy Efficiency | 601 | 14,432 |
| PPRF | 200s | 273,793 |
| Total Enterprise Funds | | 1,042,736 |
| | | $ 2,152,874 |

## 4. DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued

Transfers between funds for the year ended June 30, 2008 are as follows:

| | | UNM Cig Tax | UNM Health Sci. | Metro Court | State Bldg. GRT | Operating |
|---|---|---|---|---|---|---|
| **Transfers In:** | | | | | | |
| Governmental Funds: | | | | | | |
| UNM Cig Tax | $ | - | - | - | - | |
| UNM Health Sciences | | - | - | - | - | - |
| Metro Court | | - | - | - | - | - |
| State Building GRT | | - | - | - | - | - |
| | | - | - | - | - | - |
| Enterprise Funds: | | | | | | |
| Operating Fund | | - | - | - | - | - |
| GRIP Admin. | | - | - | - | - | |
| PPRF | | 7,144,348 | 6,525,565 | | 3,055,780 | 8,591,026 |
| Behavioral Health | | - | - | - | - | - |
| Cigarette Tax Rev. Bond | | 255,882 | - | - | - | - |
| Drinking Water | | - | - | - | - | - |
| Local Road Fund | | - | - | - | - | - |
| | $ | 7,400,230 | 6,525,565 | - | 3,055,780 | 8,591,026 |

Transfers in and out of the governmental funds are legislatively appropriated revenues to pay debt service.

Enterprise fund transfers in and out are primarily movement of loan proceeds out to the borrowers to pay for program and construction costs.

$6,925,294 was transferred from the enterprise funds to the governmental funds for fiscal year 2008.

The following Enterprise Fund owed the following amount to other state agencies at June 30, 2008:

The Drinking Water Revolving Loan Fund owed $1,075,831 to the Environment Department for technical set-asides.

| Transfers Out | | | | | | | |
|---|---|---|---|---|---|---|---|
| GRIP Admin. | PPRF | Behav. Health | Cig Tax | Drinking Water | Local Road | Total | Net Transfers In (Out) |
| - | - | - | - | - | - | - | (7,400,230) |
| - | 4,884,677 | - | - | - | - | 4,884,677 | (1,640,888) |
| - | 2,357,229 | - | - | - | - | 2,357,229 | 2,357,229 |
| - | 2,814,375 | - | - | - | - | 2,814,375 | (241,405) |
| - | 10,056,281 | - | - | - | - | 10,056,281 | (6,925,294) |
| - | 6,500,000 | - | - | - | - | 6,500,000 | (2,091,026) |
| - | 13,520 | - | - | - | - | 13,520 | (861,480) |
| - | - | - | - | - | - | 25,316,719 | 6,657,838 |
| - | - | - | 38,215 | - | - | 38,215 | 38,215 |
| - | - | - | - | - | - | 255,882 | 217,667 |
| - | 2,089,080 | - | - | - | - | 2,089,080 | 2,089,080 |
| 875,000 | - | - | - | - | - | 875,000 | 875,000 |
| 875,000 | 18,658,881 | - | 38,215 | - | - | 45,144,697 | - |

## 5. OPERATING TRANSFERS

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

| State Agency | Agency Fund Number | | Economic Development Fund | UNM Health Sciences Fund | Other Governmental Funds | Total |
|---|---|---|---|---|---|---|
| Dept. of Finance & Administration | 34100 | $ | 7,100,000 | 9,505,445 | 107,053,593 | 123,659,038 |
| University of New Mexico | 95100 | | - | (3,647,633) | - | (3,647,633) |
| New Mexico Department of Workforce Solutions | 63100 | | - | - | (557,079) | (557,079) |
| New Mexico State University | 95200 | | - | - | (2,819,856) | (2,819,856) |
| | | $ | 7,100,000 | 5,857,812 | 103,676,658 | 116,634,470 |

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

| State Agency | Agency Fund Number | | Public Project Revolving Funds | New Mexico Drinking Water Revolving Loan Fund |
|---|---|---|---|---|
| Bernalillo Metropolitan Court | 24400 | $ | (950,000) | - |
| University of New Mexico | 95100 | | (24,177,732) | (4,984,752) |
| NM Department of Health | 66500 | | (287,297) | - |
| NM Environment Department | 66700 | | (576,534) | - |
| | | $ | (25,991,563) | (4,984,752) |

The Authority received $123,659,038 in New Mexico state general fund appropriations from the Department of Finance and Administration.

## 5. OPERATING TRANSFERS - continued

The following enterprise funds made the following transfers to other state agencies during the year ended June 30, 2008:

The PPRF Series 2005 C & D Metro Court Refunding transferred $950,000 in rebates to Metro Court.

The Drinking Water Revolving Fund transferred $4,984,752 to the New Mexico Environment Department (NMED) for billings, and the PPRF Direct Cash Loans transferred $576,534 to the NMED for debt service for PPRF administration.

The PPRF Series 2005 E Fund transferred $24,177,732 to the University of New Mexico (UNM) for reimbursement of construction costs related to the UNM Cancer Center.

The PPRF Direct Cash Loans transferred $287,297 to Gila Regional Medical Center for payment of debt service.

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2008:

The UNM Health Sciences 2004A transferred $3,647,633 for revenue rebate to UNM from cigarette tax collections.

The Workers' Compensation Series 1996 transferred $557,079 for revenue rebate to Workers' Compensation.

The State Building GRT Purchase Fund transferred $2,819,856 in program fund requests to project draw requests and debt service payments.

## 6. CAPITAL ASSETS

A summary of changes in capital assets follows:

| Business-type Activities | | Balance June 30, 2007 | Additions | Adjustments/ Deletions | Balance June 30, 2008 |
|---|---|---|---|---|---|
| Depreciable assets: | | | | | |
| Furniture and fixtures at historical cost | $ | 98,166 | - | - | 98,166 |
| Computer hardware and software | | 388,702 | 20,739 | - | 409,441 |
| Machinery and equipment | | 24,768 | - | - | 24,768 |
| Leasehold improvements | | 26,932 | 8,240 | - | 35,172 |
| | | 538,568 | 28,979 | - | 567,547 |
| Accumulated depreciation: | | | | | |
| Furniture and fixtures | | (144,059) | (9,789) | - | (153,848) |
| Computer hardware and software | | (87,843) | (40,829) | - | (128,672) |
| Machinery and equipment | | (8,512) | (2,470) | - | (10,982) |
| Leasehold improvements | | (5,886) | (3,507) | - | (9,393) |
| | | (246,300) | (56,595) | - | 302,895 |
| Net total | $ | 292,268 | (27,616) | - | 264,652 |

Depreciation expense was $15,060 in the Operating Fund, $18,587 in the Public Project Revolving Fund, $9,197 in the Drinking Water Revolving Loan Fund, $12,470 in the GRIP Administrative Fund, $160 in the Primary Care Fund, $320 in the Behavioral Health Capital Fund, $160 in the Child Care Revolving Loan Fund, $160 in the Local Road Fund, $320 in the Tax Credits Fund and $160 in the Energy Efficiency Fund for the year ended June 30, 2008.

## 6. CAPITAL ASSETS - continued

| Governmental Activities | | Balance June 30, 2007 | Additions | Adjustments/ Deletions | Balance June 30, 2008 |
|---|---|---|---|---|---|
| Depreciable assets: | | | | | |
| Furniture and fixtures at historical cost | $ | 100,636 | - | - | 100,636 |
| Computer hardware and software | | 119,374 | 4,722 | - | 124,096 |
| Machinery and equipment | | 24,349 | - | - | 24,349 |
| Leasehold improvements | | 13,318 | - | - | 13,318 |
| | | 257,677 | 4,722 | - | 262,399 |
| Accumulated depreciation: | | | | | |
| Furniture and fixtures | | (59,121) | (14,149) | - | (73,270) |
| Computer hardware and software | | (37,854) | (17,448) | - | (55,302) |
| Machinery and equipment | | (10,578) | (3,423) | - | (14,001) |
| Leasehold improvements | | (4,621) | (1,872) | - | (6,493) |
| Accumulated depreciation | | (112,174) | (36,892) | - | (149,066) |
| Net total | $ | 145,503 | (32,170) | - | 113,333 |

## 7. BONDS PAYABLE

Bonds outstanding as of June 30, 2008, for the Authority's enterprise funds consist of the following:

- **Public Project Revolving Funds (PPRF)**

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

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

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

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

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

## 7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

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

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

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

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

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

## 7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

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

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

PPRF Series 2005F. On December 7, 2005, the Authority issued $21,950,000 of Subordinate Lien Public Project Revolving Fund Series 2005 F Revenue Bonds. The 2005 F Series Bonds were issued to: 1) directly fund, or to reimburse the Public Projects Revolving Fund for, loans made by the NMFA to certain governmental entities for the purpose of financing public projects, 2) purchase a Reserve Instrument, and 3) pay the cost of issuance of the Series 2005 F Bonds.

PPRF Series 2006A. On March 28, 2006, the Authority issued $49,545,000 of Subordinate Lien Public Project Revolving Fund Series 2006 A Revenue Bonds. The 2006 A Series Bonds were issued to: 1) originate loans or reimburse the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities that will be or were used to finance certain projects for such governmental units, 2) purchase a reserve surety bond for deposit to the debt service reserve account established for the Series 2006 A Bonds, and 3) pay costs incurred in connection with the issuance of the Series 2006 A Bonds.

PPRF Series 2006B. On June 27, 2006, the Authority issued $38,260,000 of Senior Lien Public Project Revolving Fund Series 2006 B Revenue Bonds. The 2006 B Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units and, 2) pay costs incurred in connection with the issuance of the Series 2006 B Bonds.

## 7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

PPRF Series 2006C. On November 7, 2006, the Authority issued $39,860,000 of Subordinate Lien Public Project Revolving Fund Series 2006 C Revenue Bonds. The 2006 C Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, including a $21,650,229 loan to the Jicarilla Apache Tribal Utility Authority; 2) purchase a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2006 C Bonds; and 3) pay costs incurred with the issuance of the Series 2006 C Bonds.

PPRF Series 2006D. On September 6, 2006, the Authority issued $54,600,000 of Senior Lien Public Project Revolving Fund Series 2006 D Revenue Bonds. The 2006 D Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, 2) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue Bonds, Series 2006 A (PERA Building Acquisition) (the "2006A Bonds") to finance the acquisition and improvement of a public building for use by the State with proceeds of the 2006 A Bonds, 3) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue bonds Series 2006 B (Refunding Project) (the "2006 B Bonds") to refund the outstanding NMFA State Office Building Bonds Series 2002 A with proceeds of the Series 2006 B Bonds, and 4) pay costs incurred in connection with the issuance of the Series 2006 D Bonds.

PPRF Series 2007A. On February 27, 2007, the Authority issued $34,010,000 of Subordinate Lien Public Project Revolving Fund Series 2007 A Revenue Bonds. The 2007 A Series Bonds were issued to: 1) reimburse the Public Project Revolving Fund for loans made by NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; 2) purchase a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007 A Bonds; 3) pay accrued interest; and 4) pay costs incurred with the issuance of the Series 2007 A Bonds.

## 7. BONDS PAYABLE - continued

- **Public Project Revolving Funds (PPRF) - continued**

PPRF Series 2007B. On July 19, 2007, the Authority issued $38,475,000 of Subordinate Lien Public Project Revolving Fund Series 2007 B Revenue Bonds. The 2007 B Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007B Bonds; (3) purchase a debt service reserve fund surety bond for deposit into the Debt Service Reserve Account established for the Series 2007B Bonds; and (4) pay costs incurred in connection with the issuance of the Series 2007B Bonds.

PPRF Series 2007C. On September 26, 2007, the Authority issued $131,860,000 of Subordinate Lien Public Project Revolving Fund Series 2007 C Revenue Bonds. The 2007 C Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007C Bonds; (3) purchase a debt service reserve fund surety bond for deposit into the Debt Service Reserve Account established for the Series 2007C Bonds; and (4) pay costs incurred in connection with the issuance of the Series 2007C Bonds.

PPRF Series 2007E. On November 8, 2007, the Authority issued $61,945,000 of Senior Lien Public Project Revolving Fund Series 2007 E Revenue Bonds. The 2007 E Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007E Bonds; and (3) pay costs incurred in connection with the issuance of the Series 2007E Bonds.

PPRF Series 2008A. On April 17, 2008, the Authority issued $158,965,000 of Senior Lien Public Project Revolving Fund Series 2008 A Revenue Bonds. The 2008A Series Bonds were issued to: 1) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units; (2) retire a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2008A Bonds; and (3) pay costs incurred in connection with the issuance of the Series 2008A Bonds.

## 7. BONDS PAYABLE - continued

Bonds outstanding as of June 30, 2008, to be paid out of the Authority's debt service funds consist of the following:

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

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

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

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

## 7. BONDS PAYABLE - continued

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

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

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

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

## 7. BONDS PAYABLE - continued

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

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

## 7. BONDS PAYABLE - continued

Bonds payable and related premium/discount balances consist of the following at June 30, 2008:

| | Amount | Interest Rate | Final Maturity |
|---|---|---|---|
| Enterprise Funds: | | | |
| PPRF 1999A, B, C and D | $ 9,760,000 | 3.15 - 6.80 | 6/1/2018 |
| PPRF 2000A | 200,000 | 4.10 - 5.30 | 6/1/2009 |
| PPRF 2000B and C | 8,800,000 | 4.35 - 5.80 | 6/1/2009 |
| PPRF 2002A | 19,975,000 | 2.00 - 5.00 | 6/1/2026 |
| PPRF 2003A | 21,959,000 | 2.00 - 4.75 | 6/1/2025 |
| PPRF 2003B | 19,340,000 | 2.00 - 5.00 | 6/1/2021 |
| PPRF 2004A | 32,265,000 | 1.125 - 5.875 | 6/1/2031 |
| PPRF 2004B | 37,875,000 | 3.00 - 5.50 | 6/1/2033 |
| PPRF 2004C | 146,170,000 | 2.50 - 5.25 | 6/1/2024 |
| PPRF 2005C and D | 51,015,000 | 3.05 - 5.00 | 6/15/2025 |
| PPRF 2005A | 15,145,000 | 3.00 – 5.00 | 6/1/2025 |
| PPRF 2005B | 12,665,000 | 3.00 – 4.25 | 6/1/2020 |
| PPRF 2005E | 23,630,000 | 3.875 - 5.00 | 6/15/2025 |
| PPRF 2005F | 21,035,000 | 3.75 - 5.00 | 6/15/2025 |
| PPRF 2006A | 49,090,000 | 4.00 - 5.00 | 6/15/2035 |
| PPRF 2006B | 36,410,000 | 4.00 - 5.00 | 6/1/2036 |
| PPRF 2006C | 37,485,000 | 4.00 - 5.00 | 6/15/2027 |
| PPRF 2006D | 51,785,000 | 4.25 - 5.00 | 6/1/2036 |
| PPRF 2007A | 32,295,000 | 4.00 - 5.00 | 6/15/2027 |
| PPRF 2007B | 37,490,000 | 4.00 - 5.00 | 6/15/2034 |
| PPRF 2007C | 129,360,000 | 4.25 - 5.25 | 6/15/2027 |
| PPRF 2007E | 60,960,000 | 4.00 - 5.00 | 6/1/2032 |
| PPRF 2008A | 157,615,000 | 3.50 - 5.00 | 6/1/2038 |
| CIG TAX 2006 – Behavioral | 2,250,000 | 5.51 | 5/1/2026 |
| | 1,014,574,000 | | |
| Bond premium and discount, net on enterprise funds bonds payable | 39,507,482 | | |
| Total | $ 1,054,081,482 | | |

## 7. BONDS PAYABLE – continued

| | | Amount | Interest Rate | Final Maturity |
|---|---|---|---|---|
| To be paid out of Debt Service Funds: | | | | |
| UNM Health Sciences | $ | 22,460,000 | 2.00 - 5.00 | 4/1/2019 |
| UNM Health Sciences 2004B | | 8,460,000 | 2.10 - 5.50 | 4/1/2019 |
| Workers' Compensation Financing | | 2,540,000 | 5.00 - 5.60 | 3/1/2017 |
| Metro Court Financing Fund | | 45,595,000 | 1.65 - 5.50 | 6/15/2011 |
| State Capitol Improvement Financing | | 5,385,000 | 7.00 | 6/1/2021 |
| State Building Purchase Fund | | 26,030,000 | 4.00 - 5.00 | 11/1/2006 |
| COP-Equipment Loan Fund Series | | 191,000 | 4.05 - 5.40 | 10/1/2016 |
| COP-Equipment Loan Fund Series | | 57,000 | 3.85 - 5.20 | 4/1/2016 |
| COP-Equipment Loan Fund Series | | 163,000 | 4.50 - 5.70 | 4/1/2012 |
| | | 110,881,000 | | |
| Bond premium and discount, net on Debt Service Funds bonds payable | | 1,899,591 | | |
| Total | $ | 112,780,591 | | |

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

| | | Principal | Interest | Total |
|---|---|---|---|---|
| 2009 | $ | 63,794,000 | 53,783,568 | 117,577,568 |
| 2010 | | 56,818,000 | 51,064,441 | 107,882,441 |
| 2011 | | 100,504,000 | 48,695,791 | 149,199,791 |
| 2012 | | 60,777,000 | 44,069,750 | 104,846,750 |
| 2013 | | 70,940,000 | 46,272,661 | 117,212,661 |
| 2014 - 2018 | | 297,218,000 | 158,097,077 | 455,315,077 |
| 2019 - 2023 | | 243,393,000 | 92,241,085 | 335,634,085 |
| 2024 - 2028 | | 136,066,000 | 40,104,275 | 176,170,275 |
| 2029 - 2033 | | 62,295,000 | 17,668,144 | 79,963,144 |
| 2034 - 2038 | | 33,650,000 | 3,571,650 | 37,221,650 |
| Total | $ | 1,125,455,000 | 555,568,442 | 1,681,023,442 |

## 7. BONDS PAYABLE - continued

The bonds payable activity for the year is as follows:

| | | Balance, July 1, 2007 | Additions | Deletions | Balance, June 30, 2008 |
|---|---|---|---|---|---|
| Enterprise Funds | $ | 661,114,000 | 391,245,000 | (37,785,000) | 1,014,574,000 |
| Debt Service Funds | | 116,587,000 | - | (5,706,000) | 110,881,000 |
| Total | $ | 777,701,000 | 391,245,000 | (43,491,000) | 1,125,455,000 |

The amount of bonds payable due within one year is $63,794,000.

## 8. NOTE PAYABLE

In November 2002, the Authority issued the 2002A Bond. Part of the 2002A Bond proceeds were given to UNM for their Law Library, and the remaining portion of $2,000,000 was loaned to UNM. To offset this loan receivable, the Authority was issued a note payable in conjunction with the 2002A Debt Service requirement. The terms of this note are outlined below:

| | | |
|---|---|---|
| $2,000,000 variable interest rate (3.980% at June 30, 2008), note due in annual installments of $156,941 (currently), including interest, through May 2015. Note is offset by cigarette tax proceeds received from the State of New Mexico. | $ | 1,704,789 |
| Less current maturities | | 156,941 |
| | $ | 1,547,848 |

Long-term debt maturities on note payable to PPRF Fund as of June 30, 2008, are as follows:

| Years ending June 30: | | |
|---|---|---|
| 2009 | $ | 156,941 |
| 2010 | | 163,848 |
| 2011 | | 171,223 |
| 2012 | | 179,102 |
| 2013 | | 187,505 |
| 2014 and thereafter | | 846,170 |
| | $ | 1,704,789 |

## 9. LINE OF CREDIT

The Authority has a tax-exempt $100,000,000 line of credit with a bank. Advances may be taken against the facility for the funding of loans made by the Authority. Advances, plus accrued interest, must be repaid within six months from the proceeds of Authority bond issuances. The interest rate on advances changes monthly, and is equal to the one-month U.S. dollar LIBOR index plus 17 basis points. The Authority pays a commitment fee on the unused balance of the line at an annual rate of 6 basis points as long as the Authority's long-term debt rating by Standard & Poor's is AA- or better. The Authority's rating is currently AA+. In the event the Authority's rating drops below AA-, the unused fee would increase to 9 basis points.

## 9. LINE OF CREDIT – continued

At June 30, 2008, there were no amounts due under the line of credit. During the year then ended, the Authority drew a total of $144,509,901 and repaid $175,848,875 in principal and $944,596 in interest. There have been no advances between June 30, 2008 and the date of the independent auditor's report.

## 10. OPERATING LEASE COMMITMENT

The Authority is committed under various lease agreements for office space, a vehicle and copiers. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2008 amounted to approximately $316,000.

Future minimum lease payments for these leases are as follows:

| Years ending June 30: | | |
|---|---|---|
| 2009 | $ | 330,506 |
| 2010 | | 342,810 |
| 2011 | | 22,908 |
| 2012 | | 15,545 |
| 2013 | | 847 |
| 2014 and thereafter | | - |
| | $ | 712,616 |

## 11. RETIREMENT PLAN

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $361,328, $301,983 and $263,313 for the years ended June 30, 2008, 2007 and 2006, respectively. Substantially all full time employees participate in this plan.

## 11. RETIREMENT PLAN - continued

Presented below is the June 30, 2008, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

Statement of Fiduciary Net Assets

| | | |
|---|---|---|
| Assets: | | |
| Cash | $ | 23,941 |
| Self-directed accounts (cash and investments) | | 1,651,831 |
| Guaranteed Account | | 2,621 |
| Participant loans receivable | | 38,162 |
| Total assets | $ | 1,716,555 |
| Net assets: | | |
| Pension plan participants' benefits | $ | 1,716,555 |

Statement of Changes in Net Assets

| | | |
|---|---|---|
| Additions: | | |
| Investment earnings | $ | (91,969) |
| Employer contributions | | 361,328 |
| Rollover contributions | | 34,297 |
| Employee contributions | | 120,951 |
| Total additions | | 424,607 |
| Deductions: | | |
| Distributions to participants | | (405,013) |
| Investment expenses | | (13,925) |
| Total deductions | | (418,938) |
| Change in net assets | | 5,669 |
| Net assets - beginning | | 1,710,886 |
| Net assets - ending | $ | 1,716,555 |

## 11. RETIREMENT PLAN - continued

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code for its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2008 were $14,106.

## 12. COMPENSATED ABSENCES

During the year ended June 30, 2008, the following changes occurred in the compensated absences liabilities:

| | Balance, July 1, 2007 | Additions | Deletions | Balance, June 30, 2008 |
|---|---|---|---|---|
| $ | 192,088 | 214,582 | 206,434 | 200,236 |

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

## 13. AGENCY TRANSACTIONS

- **Bond Issues**

In 2003, the State Legislature authorized the issuance of $1.6 billion in bonds to fund statewide transportation expansion and improvement projects known as Governor Richardson's Investment Partnership (GRIP). The Authority was authorized to issue $1.6 billion in bonds (the Bonds) in several installments on behalf of the New Mexico Department of Transportation (NMDOT). The Bonds were issued by the Authority as agent for the NMDOT. The Bonds are liabilities of NMDOT, not the Authority, and are not included in the Authority's financial statements.

## 13. AGENCY TRANSACTIONS - continued

- **Bond Issues – continued**

In May 2004, the Authority issued the following bonds pursuant to the GRIP legislation:

| | | Par Value | Gross Proceeds | Premium Included in Proceeds | Cost of Issuance |
|---|---|---|---|---|---|
| State Transportation Revenue Bonds (Senior Lien) Series 2004A | $ | 700,000,000 | 743,556,815 | 43,556,815 | 7,987,367 |
| State Transportation Refunding: Revenue Bonds (Subordinate Lien) Series 2004B | | 237,950,000 | 254,297,187 | 16,347,187 | 2,980,638 |
| Series 2004C (Adjustable Rate) | | 200,000,000 | 200,000,000 | - | 2,505,264 |
| Total | $ | 1,137,950,000 | 1,197,854,002 | 59,904,002 | 13,473,269 |

The proceeds of the Series 2004A issuance were used to fund the construction of GRIP transportation projects. The proceeds of the Series 2004B and 2004C issuances were used to advance refund certain older debt issues of the NMDOT. The proceeds were used to purchase U.S. government securities which were deposited in an irrevocable trust to provide for all future debt service payments on the refunded issues. The bonds issued in 2004 the 2006 bonds discussed below, and any subsequent bonds that may be issued in the future are special, limited obligations of the NMDOT, payable solely from certain federal funds that are paid into the State Road Fund, certain taxes and fees that are required to be paid into the State Road Fund, and certain taxes and fees required by law to be paid into the Highway Infrastructure Fund.

In December, 2006, the Authority issued the following additional bonds pursuant to the GRIP legislation:

| | | Par Value | Gross Proceeds | Premium Included in Proceeds | Cost of Issuance |
|---|---|---|---|---|---|
| State Transportation Revenue Bonds (Senior Lien) Series 2006A | $ | 150,000,000 | 160,886,296 | 10,886,296 | 1,192,789 |
| State Transportation Revenue and Refunding Bonds (Subordinate Lien) Series 2006B | | 40,085,000 | 41,797,863 | 1,712,863 | 352,732 |

## 13. AGENCY TRANSACTIONS - continued

- **Bond Issues – continued**

| | Par Value | Gross Proceeds | Premium Included in Proceeds | Cost of Issuance |
|---|---|---|---|---|
| Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien) Series 2006C Subseries C-1through C-3 | $ 220,000,000 | 200,000,000 | - | 1,698,064 |
| Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien) Series 2006D (Taxable) Subseries D-1 through D-2 | 50,400,000 | 50,400,000 | - | 400,000 |
| Total | $ 460,485,000 | 473,084,159 | 12,599,159 | 3,643,585 |

With the exception of $10,071,197 deposited to an escrow account for refunded bonds, all of the net proceeds of the 2006 bonds were used to fund GRIP transportation projects.

- **GRIP Administrative fee**

For services provided by the Authority in the issuance and administration of the Bonds, NMDOT pays an annual fee to the Authority of twenty-five basis points of the outstanding principal balance of the Bonds. One-half of the fee is set aside by the Authority in the Local Transportation Infrastructure Fund ("LTIF") to fund local highway and transportation projects.

For the year ended June 30, 2008, the Authority received 2,882,887 in administrative fees related to the Bonds. One-half of this amount was deposited in the LTIF, the remaining one-half was recorded as revenue to the Authority.

At June 30, 2008, the Trustee for the Bonds held $380,172,840 in cash in various program and debt service accounts related to the Bonds.

- **Refunding of Variable Rate Bonds**

The 2004C, 2006C, and 2006D Series bonds were issued as Auction Rate Securities ("ARS"). ARS are one of the two principal types of securities for which interest rates are reset in a periodic auction process. For each of these Series, the rates were reset in weekly auctions. All of the bonds were insured by certain municipal bond insurance companies. In late 2007 and early 2008, the market for ARS was negatively impacted by a number of factors, the principal event being downgrades of the ratings of certain insurers of ARS. These downgrades and other events caused the weekly auctions of the bonds to "fail', meaning that insufficient bids were received to permit resale of all of the bonds. In the event of a

## 13. AGENCY TRANSACTIONS - continued

- **Refunding of Variable Rate Bonds**

failed auction, no bonds are resold, even though some bids were received. In a failed ARS suction, the existing holders of the bonds must continue to hold their bonds until the next successful auction. The procedures applicable to a failed auction included a provision that the interest rate on the bonds resets to a default rate. In the case of the 2004C bonds, the default rate was one-month LIBOR plus 175 basis points. The default rate for the 2006C and D bonds was 12%.

In April and May, 2008, the Authority refunded all of the ARS Series 2004C, 2006C, and 2006D, reissuing the bonds as Variable Rate Demand Notes (VRDN). The interest rates for these bonds reset in weekly auctions, as was the case for the ARS. The principal difference between the ARS and the VRDN is that the ARS were credit-enhanced with insurance, while the VRDN are supported by bank letters of credit. The following bonds were issued:

| | | Par Value |
|---|---|---|
| Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008A | $ | 115,200,000 |
| Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008B | | 220,000,000 |
| Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008C | | 84,800,000 |
| Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008D (Taxable) | | 50,400,000 |
| Total | $ | 460,400,000 |

All of the above refunding bonds were issued at par. The DOT provided additional funds totaling $2,641,872 to pay for the cost of issuance of the bonds.

- **Derivative Instruments**

At the time of the 2004 GRIP bond issuance, the Authority entered into interest rate exchange agreements ("swaps") with respect both to the adjustable rate bonds then issued and the adjustable rate bonds anticipated to be issued in 2006. All of the 2004 adjustable rate bonds were hedged at issuance with immediately-starting swaps and approximately one-half of the anticipated total 2006 issuance was hedged with forward-starting swaps that became effective in 2006.

## 13. AGENCY TRANSACTIONS - continued

- **Derivative Instruments - continued**

In all of the swaps, the Authority receives a variable-interest rate payment based on an index, and makes a fixed-rate interest payment. This arrangement has the effect of converting the variable rate bonds to "synthetic fixed-rate" issues.

As in the case of the GRIP bonds, the Authority has entered into the swaps as an agent for the DOT, and no amounts with respect to the swap transactions appear in the Authority's financial statements. These swap agreements remained in effect following the 2008 refunding and reissuance of the 2004 and 2006 adjustable rate bonds as Variable Rate Demand Notes (the 2008 A through D Series).

- **Objectives of the Swaps**

The Authority's objective in entering into the swap agreements was to obtain a lower interest cost for the 2004 bonds than could have been obtained at the time had they been issued as fixed-rate bonds. With respect to the planned 2006, issuance, the Authority believed in 2004 that it would be desirable to "lock in" a synthetic fixed rate of 5% or less for a portion of the bonds anticipated to be issued in 2006.

- **Significant Terms**

**2004 Swaps:**

| Counterparty | Royal Bank of Canada | Goldman Sachs | Lehman Brothers* |
|---|---|---|---|
| Notional Amount | $100,000,000 | $50,000,000 | $50,000,000 |
| Receipt Rate | 68 % of 1 month LIBOR** | 68 % of 1 month LIBOR** | 68 % of 1 month LIBOR** |
| Payment Rate (Synthetic Fixed Rate) | 3.934% | 3.934% | 3.934% |
| Embedded Option(s) | None | None | None |
| Effective Date | May 20, 2004 | May 20, 2004 | May 20, 2004 |
| Termination Date: | June 15, 2024 | June 15, 2024 | June 15, 2024 |

* On October 6, 2008, as discussed below, Lehman Brothers was replaced as the counterparty by Deutsche Bank. The significant terms of the Deutsche Bank swap are the same as the Lehman Brothers swap.
**For the period May 20, 2004 to June 15, 2006 the rate was the BMA Municipal Swap Index

## 13. AGENCY TRANSACTIONS - continued

- **Significant Terms - continued**

**2006 Forward Starting Swaps:**

| | | |
|---|---|---|
| Counterparty | JPMorgan Chase Bank | UBS AG |
| Notional Amount | $110,000,000 | $110,000,000 |
| Receipt Rate | SIFMA Municipal Swap Index | SIFMA Municipal Swap Index |
| Payment Rate | 5.072% | 5.072% |
| Embedded Option(s) | "Knockout" option – Counterparty may cancel if the index remains above 7% for more than 180 days | "Knockout" option – Counterparty may cancel if the index remains above 7% for more than 180 days |
| Option premium to the Authority | 0.34% | 0.34% |
| Net payment rate ("Synthetic Fixed Rate"), equals the payment rate less option premium | 4.732% | 4.732% |
| Effective Date | December 15, 2006 | December 15, 2006 |
| Termination Date: | December 15, 2026 | December 15, 2026 |

No cash was paid or received at the initiation of any of the above swaps.

## 13. AGENCY TRANSACTIONS - continued

- **Fair Value**

The estimated fair value of the swaps at June 30, 2008 was as follows:

| Counterparty | | Notional Value | Fair Value* |
|---|---|---|---|
| Goldman Sachs | $ | 50,000,000 | (3,617,674) |
| Lehman Brothers | | 50,000,000 | (3,592,705) |
| Royal Bank of Canada | | 100,000,000 | (7,235,348) |
| JPMorgan Chase Bank | | 110,000,000 | (16,441,991) |
| UBS AG | | 110,000,000 | (16,441,991) |
| Total | $ | 420,000,000 | (47,329,709) |

*The Fair Value is the estimated amount that would have been received by or paid to the Authority if the agreements had been terminated at June 30, 2008 under the terms of the agreement. This value is the net present value of the receipts and payments anticipated to be made pursuant to the agreements. The net present values are calculated based on discount rates indicated by actual swap transactions that occurred on or around June 30, 2008. Negative amounts indicate payments that would have been made by the Authority to the counterparties.

- **Associated Debt**

| Variable Rate Debt* | | | 2008 Debt Service Principal | 2008 Debt Service Interest | Net Swap Payments Made (Received) | Total | Actual Synthetic Fixed Rate |
|---|---|---|---|---|---|---|---|
| Series 2008A and C | $ | 200,000,000 | - | 7,520,995 | 1,864,390 | 9,385,385 | 4,693% |
| Series 2008B | | 220,000,000 | - | 8,360,775 | 2,890,693 | 11,251,468 | 5.114% |

*The interest and swap payments for these bonds include the payments for the 2004 and 2006 Series bonds that that the 2008 series bonds replaced during the fiscal year.

- **Replacement of Counterparty**

The terms of the Authority's agreements with the swap counterparties provide that a bankruptcy filing is an event that terminates the agreement. In September 2008, Lehman Brothers, one of the counterparties for the 2004 swaps, filed for bankruptcy. The Authority evaluated a number of options and replaced Lehman Brothers with Deutsche Bank as the counterparty for this swap. All significant terms of the new agreement with Deutsche Bank remain the same as the original Lehman Brothers agreement. At the closing of the transaction on October 6, 2008, Deutsche Bank paid the then-current termination value as provided by the original agreement. The amount paid was calculated pursuant to the agreement to be $4,840,000. This was approximately $300,000 greater than the amount due Lehman

## 13. AGENCY TRANSACTIONS - continued

- **Replacement of Counterparty - continued**

Brothers, which was calculated, per the agreement, as of September 23, 2008, a termination date triggered by the bankruptcy filing. The excess funds were deposited in a debt service account and will be used to make debt service payments on the bonds.

**Credit Risk**

Credit risk is the possibility that a counterparty will not fulfill its obligations.

The credit ratings of the counterparties, at October 10, 2008, were:

| | Moody's | S&P | Fitch |
|---|---|---|---|
| Royal Bank of Canada | Aaa | AA- | AA |
| Goldman Sachs | Aaa | AAA | NR |
| Deutsche Bank | Aa1 | AA- | AA- |
| JP Morgan Chase | Aaa | AA | AA- |
| UBS AG | Aa2 | AA- | AA- |

Presently, the Authority has no exposure to loss with respect to the counterparties, as the termination values of the swaps are negative. That is, no amounts would be owed to the Authority if any swaps were terminated at present. Each swap agreement contains provisions requiring the posting of collateral in the event that termination values exceed certain amounts. No termination value currently exceeds these limits, and, accordingly, no collateral is posted. The swap agreements permit the netting of amounts owed between the Authority and the counterparty, mitigating, to some extent, the level of credit risk that would exist if the Authority were owed a termination value by a counterparty. The authority believes it has an adequate degree of diversification with regard to counterparties.

**Interest Rate Risk**

The knock-out option in the 2006 swaps leaves the Authority open to interest rate risk. If the SIFMA municipal swap index averages above 7% for 180 consecutive days, then, as provided by the terms of the knockout option, swap agreements could be cancelled by the counterparties and the Authority would have outstanding unhedged variable rate debt in a 7% interest rate environment.

**Basis Risk**

Basis risk is the possibility that the variable rate paid on the bonds may not be adequately offset by the variable index payment received under the swap agreement. The Authority has little or no such risk with respect to the 2004 bonds as the 2004 swaps pay a variable rate equal to the SIFMA Municipal Swap index which has very closely approximated, historically, the rates paid on variable rate municipal debt. The Authority has basis risk, however, with respect to the 2006 swaps. The variable rate the Authority

## 13. AGENCY TRANSACTIONS - continued

- **Risks - continued**

**<u>Basis Risk</u> - continued**

receives with respect to the 2006 swaps is 68% of one-month LIBOR. While this rate has closely tracked the SIFMA Municipal; Swap Index for a long period of time, there has recently been some divergence between the two indices. There is no guarantee that the two indices will remain as closely correlated in the future as they were in the past. There is a possibility, therefore, of a mismatch between actual variable rate bond debt service payments and the variable rate receipts under the 2006 swap agreements, resulting in a failure to achieve the synthetic fixed rate expected when the swaps initiated.

One event that would cause a divergence between the indices is a significant change in U.S. income tax rates. This might result in 68% of LIBOR no longer approximating the tax-exempt rate set by the market for the Authority's variable rate debt.

- **Termination Risk**

The unplanned termination of one or more of the swaps exposes the Authority to the possibility that the synthetic fixed rate expected to be obtained on the variable rate debt will not, in fact, be achieved. The swap agreements contain the standard ISDA provisions for termination, including events such as bankruptcy, ratings downgrades, and failure to post collateral when required. In addition, the Authority, but not the counterparties, can terminate the swaps at any time with 30-day notice. As discussed above, an unplanned termination occurred due to the bankruptcy filing by Lehman Brothers. In this situation, the Authority was successful in replacing the counterparty with another on the same terms, resulting in no loss to the Authority. There can be no assurance that the same result could be obtained if other unplanned terminations occur in the future.

## 14. SUBSEQUENT EVENTS

After June 30, 2008, the Authority issued the following PPRF Direct Loans, Water Project Fund/Water Trust Board Grants, and Subordinate Lien PPRF Revenue Bonds:

| | Closing Date | | Amount |
|---|---|---|---|
| **PPRF Cash Loans:** | | | |
| DL – Town of Bernalillo | 7/11/2008 | $ | 1,016,321 |
| DL – Catron County – Quemado Lake VFD | 7/18/2008 | | 101,500 |
| DL – Sierra SWCD | 7/18/2008 | | 133,658 |
| DL – Village of Willard | 7/18/2008 | | 225,993 |
| DL – City of Santa Fe | 8/1/2008 | | 3,610,000 |
| DL – City of Sunland Park | 8/15/2008 | | 186,690 |
| DL – Cuba SWCD | 8/22/2008 | | 24,360 |
| DL – Village of Reserve | 8/22/2008 | | 101,500 |
| DL – Torrance County | 9/5/2008 | | 30,450 |
| DL – City of Las Cruces | 9/12/2008 | | 1,708,755 |
| DL – Town of Lake Arthur | 9/19/2008 | | 56,995 |
| DL – Valencia County – Highland Meadows VFD | 9/19/2008 | | 137,025 |
| DL – Upper Chama SWCD | 9/19/2007 | | 218,245 |
| DL – Otero County – 16 Springs VFD | 9/26/2008 | | 162,400 |
| **Water Project Fund/Water Trust Board:** | | | |
| WPF/WTB – Claunch Pinto Soil and Water Conservation District | 7/18/2008 | | 600,000 |
| WPF/WTB – Santo Domingo Pueblo | 8/1/2008 | | 293,000 |
| WPF/WTB – City of Lordsburg | 8/22/2008 | | 850,000 |
| WPF/WTB – NM Interstate Stream Commission | 8/29/2008 | | 750,000 |
| WPF/WTB – NM Interstate Stream Commission | 8/29/2008 | | 2,000,000 |
| WPF/WTB – City of Clovis – ENMRWA | 9/5/2008 | | 1,250,000 |
| WPF/WTB – City of Clovis – ENMRWA | 9/5/2008 | | 2,271,400 |
| **Planning Grant Fund:** | | | |
| P/G – Ancones MDWCA | 7/11/2008 | | 25,000 |
| P/G – Sangre de Cristo Regional MDWCA | 7/11/2008 | | 18,000 |
| P/G – Canjilon MDWCA & MSWA | 8/8/2008 | | 22,500 |
| P/G – Sierra County | 9/5/2008 | | 50,000 |
| **Water Waste Water Grant Funding:** | | | |
| WW – City of Moriarty | 9/19/2008 | | 396,000 |

## 14. SUBSEQUENT EVENTS - continued

**PPRF Series 2008B**. On October 16, 2008, the Authority issued $24,430,000 of Senior Lien Public Project Revolving Fund Series 2008 B Revenue Bonds. The 2008 B Series Bonds were issued to: 1) reimburse the Public Project Revolving fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, and 2) pay costs incurred with the issuance of the Series 2008 B Bonds.

## 15. DEFICIT FUND / NET ASSETS

There are deficit fund balances of $56,065 in the Child Care Revolving Loan Fund, $426,720 in the New Mexico Tax Credits Fund and $13,377 in the Energy Efficiency Fund. The operating fund will cover the deficits in these funds.

## SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

| | | Emergency Drought Water Program | Water and Wastewater Planning Grant Fund | Metro Court Financing Fund | Workers' Compensation Financing Fund |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| Unrestricted: | | | | | |
| Cash and cash equivalents | $ | 286,351 | 830,576 | - | 484,863 |
| Receivables: | | | | | |
| Tax revenue | | - | - | - | - |
| Interest | | - | - | - | - |
| Other receivables | | - | - | - | - |
| Loans receivable | | - | - | - | - |
| | | 286,351 | 830,576 | - | 484,863 |
| Restricted: | | | | | |
| Cash and cash equivalents held for others by trustee: | | | | | |
| Debt service | | - | - | - | 642,015 |
| Bond reserve | | - | - | - | - |
| Program - bond proceeds | | - | - | - | - |
| **TOTAL ASSETS** | $ | 286,351 | 830,576 | - | 1,126,878 |
| **LIABILITIES:** | | | | | |
| Accounts payable | $ | - | 8,552 | - | - |
| Debt service payable | | - | - | - | - |
| Notes payable | | - | - | - | - |
| Payable to other governments | | - | - | - | - |
| Due to other funds | | - | 9,118 | - | - |
| **TOTAL LIABILITIES** | | - | 17,670 | - | - |
| **FUND BALANCES:** | | | | | |
| Reserve for debt service | | - | - | - | 1,126,878 |
| Unreserved, reported in non-major: | | | | | |
| Special revenue funds | | 286,351 | 812,906 | - | - |
| **TOTAL FUND BALANCES** | | 286,351 | 812,906 | - | 1,126,878 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ | 286,351 | 830,576 | - | 1,126,878 |

Combining Balance Sheet - Other Governmental Funds

| State Capital Improvement Financing Fund | Equipment Loan Fund | Bio Mass Fund - Dairy | State Building Program Cigarette Tax Fund | State Office Building Financing Fund | Water and Wastewater Project Grant Fund | Total Non-major Governmental Funds |
|---|---|---|---|---|---|---|
| 400,144 | - | 2,003,260 | - | 6,992,629 | 3,711,137 | 14,708,960 |
| - | (3,384) | - | 117,076 | 530,000 | - | 643,692 |
| - | 6,239 | - | - | - | - | 6,239 |
| - | - | - | - | - | - | - |
| - | 411,000 | - | - | - | - | 411,000 |
| 400,144 | 413,855 | 2,003,260 | 117,076 | 7,522,629 | 3,711,137 | 15,769,891 |
| - | 3,383 | - | - | - | - | 645,398 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 8,067,050 | 8,067,050 |
| 400,144 | 417,238 | 2,003,260 | 117,076 | 7,522,629 | 11,778,187 | 24,482,339 |
| 80,264 | - | - | - | - | 27,133 | 115,949 |
| - | - | - | - | - | - | - |
| - | - | - | 1,704,789 | - | - | 1,704,789 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 6,707 | 15,825 |
| 80,264 | - | - | 1,704,789 | - | 33,840 | 1,836,563 |
| 319,880 | 417,238 | 2,003,260 | - | 7,522,629 | - | 11,389,885 |
| - | - | - | (1,587,713) | - | 11,744,347 | 11,255,891 |
| 319,880 | 417,238 | 2,003,260 | (1,587,713) | 7,522,629 | 11,744,347 | 22,645,776 |
| 400,144 | 417,238 | 2,003,260 | 117,076 | 7,522,629 | 11,778,187 | 24,482,339 |

YEAR ENDED JUNE 30, 2007

| | Emergency Drought Water Program | Water and Wastewater Planning Grant Fund | Metro Court Financing Fund | Workers' Compensation Financing Fund |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Grant revenue | $ - | - | - | - |
| Interest on loans | - | - | - | - |
| Interest on investments | 12,464 | 44,800 | - | 50,776 |
| Other revenue | - | - | - | - |
| **TOTAL REVENUES** | 12,464 | 44,800 | - | 50,776 |
| **EXPENDITURES:** | | | | |
| Current: | | | | |
| Administrative fees | - | - | - | - |
| Professional services | - | 77,983 | - | 641 |
| Salaries and fringe benefits | - | 39,661 | - | - |
| In-state travel | - | 1,902 | - | - |
| Out-of-state travel | - | 68 | - | - |
| Maintenance and repairs | - | 475 | - | - |
| Operating costs | - | 9,916 | - | - |
| Grant expenses | - | 205,625 | - | - |
| Capital outlay | - | 732 | - | - |
| Debt service - principal | - | - | 170,000 | 210,000 |
| Debt service - interest | - | - | 2,187,229 | 145,495 |
| **TOTAL EXPENDITURES** | - | 336,362 | 2,357,229 | 356,136 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | 12,464 | (291,562) | (2,357,229) | (305,360) |
| **OTHER FINANCING SOURCES (USES):** | | | | |
| State General Fund appropriations | - | - | - | 705,708 |
| Transfers (to) from other funds | - | - | 2,357,229 | - |
| Transfers to other state agencies | - | - | - | (557,079) |
| **NET OTHER FINANCING SOURCES (USES)** | - | - | 2,357,229 | 148,629 |
| **NET CHANGE IN FUND BALANCES** | 12,464 | (291,562) | - | (156,731) |
| **FUND BALANCES, June 30, 2007** | 273,887 | 1,104,468 | - | 1,283,609 |
| **FUND BALANCES, June 30, 2008** | $ 286,351 | 812,906 | - | 1,126,878 |

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

| State Capital Improvement Financing Fund | Equipment Loan Fund | Bio Mass Fund - Dairy | State Building Program Cigarette Tax Fund | State Office Building Financing Fund | Water and Wastewater Project Grant Fund | Total Non-major Governmental Funds |
|---|---|---|---|---|---|---|
| - | - | - | - | - | - | - |
| - | 28,605 | - | - | - | - | 28,605 |
| 17,278 | - | 3,260 | - | 326,782 | 545,704 | 1,001,064 |
| - | - | - | - | - | - | - |
| 17,278 | 28,605 | 3,260 | - | 326,782 | 545,704 | 1,029,669 |
| 14,538 | - | - | - | 20,603 | - | 35,141 |
| - | - | - | - | 1,603 | 86,299 | 166,526 |
| - | - | - | - | - | 69,331 | 108,992 |
| - | - | - | - | - | 360 | 2,262 |
| - | - | - | - | - | 296 | 364 |
| - | - | - | - | - | 1,064 | 1,539 |
| - | - | - | - | - | 17,368 | 27,284 |
| - | - | - | - | - | 2,164,356 | 2,369,981 |
| - | - | - | - | - | 512 | 1,244 |
| 570,000 | 96,000 | - | - | 1,440,000 | - | 2,486,000 |
| 407,050 | 30,000 | - | - | 1,374,375 | - | 4,144,149 |
| 991,588 | 126,000 | - | - | 2,836,581 | 2,339,586 | 9,343,482 |
| (974,310) | (97,395) | 3,260 | - | (2,509,799) | (1,793,882) | (8,313,813) |
| 991,256 | - | 2,000,000 | 1,348,761 | 6,360,000 | - | 11,405,725 |
| - | - | - | (7,400,230) | (241,405) | - | (5,284,406) |
| - | - | - | - | (2,819,856) | - | (3,376,935) |
| 991,256 | - | 2,000,000 | (6,051,469) | 3,298,739 | - | 2,744,384 |
| 16,946 | (97,395) | 2,003,260 | (6,051,469) | 788,940 | (1,793,882) | (5,569,429) |
| 302,934 | 514,633 | - | 4,463,756 | 6,733,689 | 13,538,229 | 28,215,205 |
| 319,880 | 417,238 | 2,003,260 | (1,587,713) | 7,522,629 | 11,744,347 | 22,645,776 |

# SUPPLEMENTAL SCHEDULES

**Schedule 1 - Supplemental Schedule of Pledged Collateral**

**YEAR ENDED JUNE 30, 2008**

| | | Wells Fargo (Santa Fe) | Bank of America (Charlotte) | Total |
|---|---|---|---|---|
| Bank accounts: | | | | |
| Operating account - checking | $ | - | - | - |
| Wire transfer account | | 325,772 | - | 325,772 |
| Repurchase agreements | | - | 3,748,175 | 3,748,175 |
| Total amount of deposits | | 325,772 | 3,748,175 | 4,073,947 |
| FDIC coverage | | (100,000) | (100,000) | (200,000) |
| Total uninsured public funds | | 225,772 | 3,648,175 | 3,873,947 |
| Collateral requirement @ 50% | | 112,886 | - | 112,886 |
| Collateral requirement @ 102% | | | 3,721,139 | 3,721,139 |
| Pledges and securities: | | | | |
| US T. Note, matures June 1, 2036 | | | | |
| Held at Wells Fargo, San Francisco, CA | | | | |
| CUSIP 3141DCF31 | | | | |
| Par $326,900 | | 332,288 | - | 332,288 |
| US T. Note, matures January 15, 2025 | | | | |
| Held at Bank of America, Charlotte, NC | | | | |
| CUSIP 912828DH0; 912810FR4 | | | | |
| Par $925,000 | | - | 603,302 | 603,302 |
| Par $3,730,000 (matures 01/15/2025) | | - | 3,690,794 | 3,690,794 |
| Overcollateralized | $ | 219,402 | 572,957 | 792,359 |

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

YEAR ENDED JUNE 30, 2008

| Description | Type | | State Treasurer | State Treasurer Capital Fund | Bank of Albuquerque |
|---|---|---|---|---|---|
| Local Government Investment Pool | Government Investment Pool * | $ | 147,117,448 | - | - |
| Primary Care | Government | | - | - | - |
| Capital Fund | Investment Pool * | | - | 545,566 | - |
| State Treasurer Money Market | Money Market | | - | - | 21,600,027 |
| Trust Accounts | Money Market | | - | - | 246,849,598 |
| Cigarette Tax Bonds Debt Service Reserve | Money Market | | - | - | - |
| Operating Accounts | Checking | | - | - | - |
| Agency Fund Money Market | Money Market | | - | - | 380,172,840 |
| | | $ | 147,117,448 | 545,566 | 648,622,465 |

**Unrestricted**
**Restricted**

**Total cash**

* The LGIP Pool investments consist of U.S. Government Securities, Commerical Paper and Money Market.

## Schedule 2 - Schedule of Individual Deposit and Investment Accounts

| Bank of America | Wells Fargo | The Reserve Bank | Total Book Balance | Total Bank Balance |
|---|---|---|---|---|
| - | - | - | 147,117,448 | 147,117,448 |
| - | - | - | - | |
| - | - | - | 545,566 | 545,566 |
| - | - | - | 21,600,027 | 21,600,027 |
| - | - | - | 246,849,598 | 246,849,598 |
| 279,359 | - | - | 279,359 | 279,359 |
| - | 1,100,831 | 82,453,795 | 83,554,626 | 83,595,485 |
| - | - | - | 380,172,840 | 380,172,840 |
| 279,359 | 1,100,831 | 82,453,795 | 880,119,464 | 880,160,323 |

| Governmental Activities | Business-Type Activities | Agency Funds | Total Cash |
|---|---|---|---|
| $ 118,068,253 | 86,419,188 | - | 204,487,441 |
| 20,909,892 | 274,549,291 | 380,172,840 | 675,632,023 |
| $ 138,978,145 | 360,968,479 | 380,172,840 | 880,119,464 |

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

**YEAR ENDED JUNE 30, 2008**

| | | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---|---|---|---|---|---|
| **DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES A** | | | | | |
| **Fund 315** | | | | | |
| **ASSETS:** | | | | | |
| Cash and investments | $ | 231,353,435 | 340,495,884 | 427,358,504 | 144,490,815 |
| **TOTAL ASSETS** | $ | 231,353,435 | 340,495,884 | 427,358,504 | 144,490,815 |
| **LIABILITIES:** | | | | | |
| Deposits held in trust for others | $ | 231,353,435 | 340,495,884 | 427,358,504 | 144,490,815 |
| **TOTAL LIABILITIES** | $ | 231,353,435 | 340,495,884 | 427,358,504 | 144,490,815 |
| **DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES 2006** | | | | | |
| **Fund 322** | | | | | |
| **ASSETS:** | | | | | |
| Cash and investments | $ | 404,551,152 | 440,141,788 | 612,345,821 | 232,347,119 |
| **TOTAL ASSETS** | $ | 404,551,152 | 440,141,788 | 612,345,821 | 232,347,119 |
| **LIABILITIES:** | | | | | |
| Deposits held in trust for others | $ | 404,551,152 | 440,141,788 | 612,345,821 | 232,347,119 |
| **TOTAL LIABILITIES** | $ | 404,551,152 | 440,141,788 | 612,345,821 | 232,347,119 |
| **DEPARTMENT OF TRANSPORTATION REVENUE BONDS, SERIES 2008** | | | | | |
| **Fund 326** | | | | | |
| **ASSETS:** | | | | | |
| Cash and investments | $ | - | 10,668,187 | 7,333,280 | 3,334,907 |
| **TOTAL ASSETS** | $ | - | 10,668,187 | 7,333,280 | 3,334,907 |
| **LIABILITIES:** | | | | | |
| Deposits held in trust for others | $ | - | 10,668,187 | 7,333,280 | 3,334,907 |
| **TOTAL LIABILITIES** | $ | - | 10,668,187 | 7,333,280 | 3,334,907 |

# SINGLE AUDIT

**Supplemental Schedule of Expenditures of Federal Awards**

**YEAR ENDED JUNE 30, 2008**

| Federal Agency/ Pass-Through Agency | Federal CFDA Number | | Federal Participating Expenditures |
|---|---|---|---|
| Environmental Protection Agency: | | | |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | $ | 13,595,226 |
| Total EPA | | $ | 13,595,226 |
| **Funds passed through to sub-receipients** | | $ | 4,984,752 |

| **Loans funded** | | Original Balance | Balance at June 30, 2008 |
|---|---|---|---|
| Revolving loans: | | | |
| Loans funded in previous years | $ | 71,495,630 | 30,907,764 |
| Total loans funded | $ | 71,495,630 | 30,907,764 |

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

## GENERAL

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

## BASIS OF ACCOUNTING

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

Reconciliation to Financial Statements (page 26) – New Mexico Drinking Water Revolving Loan Fund:

| | | |
|---|---|---|
| Transfers to other state agencies | $ | 4,984,752 |
| Total non-interest expense | | 577,430 |
| Total EPA expenditures per Statement of Revenues, Expenditures and Changes in Fund Net Assets | | 5,562,182 |
| Total loans issued from Federal Draws included in loans receivable on Statement of Net Assets | | 8,033,044 |
| Total EPA expenditures | $ | 13,595,226 |

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

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

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2008. We have also audited the financial statements of each of the Authority's nonmajor governmental funds and fiduciary funds presented as supplementary information in the combining fund financial statements as of and for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency (08-1) described in the accompanying schedule of findings and questioned costs to be a control deficiency.



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

**Internal Control Over Financial Reporting - continued**

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness, as defined above.

**Compliance and Other Matters**

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

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

Meyners + Company, LLC

September 29, 2008

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

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

### Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority), with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.



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

**Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A **control deficiency** in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Meyners + Company, LLC

September 29, 2008

**YEAR ENDED JUNE 30, 2008**

## A. SUMMARY OF AUDIT RESULTS

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

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

3. No significant deficiencies were disclosed during the audit of the financial statements and are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards.*

4. There were no significant deficiencies in the internal control over major programs disclosed by the Authority.

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

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

7. The program tested as a major program is:
   Capitalization Grants for Drinking Water State Revolving Fund
   CFDA Number 66.468

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

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

## B. FINDINGS - FINANCIAL STATEMENT AUDIT

### 08-1 MISSING DOCUMENTATION

**Condition:** Of 25 payroll and personnel transactions tested, we noted that one employee file did not contain I-9 documentation.

**Criteria:** The U.S. Immigration and Naturalization Service requires an employer to verify and document U.S. citizenship or resident status.

**Cause:** Oversight by the Authority.

**Effect:** Failure to comply with federal employment requirements may result in the Authority being assessed penalties or fines.

**Recommendation:** We recommend the Authority review its personnel files and complete I-9 forms for those employees who do not have the documentation on file.

**Management's Response:** The Authority had the I-9 form completed by the employee and placed in the employee's personnel file to accompany the existing supporting documents already contained in the file. All files were reviewed by management to ensure that all I-9 forms along with supporting documents were contained in the personnel file. No other missing forms or supporting documents were noted during this review.

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

None.

## Summary Schedule of Prior Year Audit Findings

None.

**Exit Conference**

An exit conference was held with the Authority on November 4, 2008. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

Katherine Miller, Chairperson (Audit Committee)
William F. Fulginiti, Vice Chairperson (Audit Committee)
William C. Sisneros, Chief Executive Officer
John T. Duff, Chief Operating Officer
Greg Campbell, Controller
Lonnie Marquez, Member (Audit Committee)
Paul Gutierrez, Member (Audit Committee)

MEYNERS + COMPANY, LLC

Georgie Ortiz, Principal
Janet Pacheco-Morton, Senior Manager
Jason C. Greving, In Charge

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Independent Auditor, with the assistance and review of the Authority. However, they are the responsibility of management, as addressed in the Independent Auditors' Report.