

<b>NEW MEXICO</b>
<b>DEPARTMENT OF</b>
<b>TRANSPORTATION</b>
<b>Financial Statements</b>
<b>for the Year Ended</b>
<b>June 30, 2006,</b>
<b>and Independent</b>
<b>Auditors' Report</b>



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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster



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Year Ended June 30, 2006

Commission

Johnny Cope	Chairperson	Hobbs
David Schutz	Vice-Chairperson	Santa Fe
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John Hummer	Member	Las Cruces
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**INDEPENDENT AUDITORS' REPORT**

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

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

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

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

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

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

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

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

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

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

*Meyers + Company, LLC*  
December 11, 2006

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

### **Financial Highlights**

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

### **Overview of the Financial Statements**

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

### **Government-Wide Financial Statements**

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

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

The Statement of Activities presents information showing how the Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

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***Government-Wide Financial Statements - continued***

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

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

***Fund Financial Statements***

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

➤ **Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheets and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department has 34 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

- *Ten percent criterion.* An individual governmental fund reports as least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund expenditures.



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***Fund Financial Statements - continued***

- ***Five percent criterion.*** An individual governmental fund reports at least 5 percent of the total for both governmental *and enterprise* funds of any of the items for which it met the 10 percent criterion.

The Department's major governmental funds are the following:

***State Road Fund*** – The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all the Department's financial activities.

***2004A GRIP Bond Project Fund*** – The bond project fund was created when the \$700,000,000 New Mexico State Transportation Subordinate Lien Revenue Bonds Series 2004A were issued through the New Mexico Finance Authority (NMFA) in May 2004. The funds from the sale of the Debentures were required to be deposited in a special account with the NMFA. Unspent proceeds are on deposit with the NMFA and recorded as due from other state agencies. The funds are used to finance State Transportation projects.

***Local Government Road Fund*** – The local government road fund was created by Section 67-3-28.2, NMSA 1978. This fund is used to account for monies received for (1) cooperative agreements program for construction and improvement of public highways and streets, and public school parking lots; (2) a municipal arterial program for construction for reconstruction of highways and streets not on the state highway systems; (3) a school bus route program for maintaining, repairing, improving and paving school bus routes, and public school parking lots; and (4) a county arterial program for construction, reconstruction, improvement and maintenance of county roads. Funding is received from state excise taxes.

***Debt Service Fund - 2001 CHAT*** – This fund was created when the \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001 A were issued in March 2001.

***Debt Service Fund - 2004A GRIP*** – This fund was created when the \$700,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bond Series 2004A were issued through the New Mexico Finance Authority in 2004.

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*Fund Financial Statements - continued*

***Debt Service Fund - 2004B and C GRIP*** – This fund was created when the \$237,950,000 and \$200,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bonds Series 2004B and Series 2004C were issued through the New Mexico Finance Authority in May 2004.

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the two major funds. Data from the other 28 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report. See pages 84 through 91.

➤ **Enterprise Funds**

The Department has one type of proprietary fund. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses its enterprise fund to account for the State Infrastructure Bank, since its purpose is to make loans for road projects.

Proprietary funds provide the same type of information as the government-wide financial statements. The proprietary fund financial statements provide separate information for the State Infrastructure Bank since it is considered to be a major fund of the Department.

The basic proprietary fund financial statements can be found on pages 27 through 29 and the cash flow statement is on page 30 of this report.

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 82 of this report.



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***Other Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information including the Schedule of Severance Tax Bonds, Schedule of Special Appropriations, Schedule of Petty Cash Deposit Accounts, Schedule of State Road Fund User and Fuel Taxes, Schedule of Debt Service and Coverage Ratios and the Schedule of Expenditures of Federal Awards.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. At June 30, 2006, the Department's assets exceeded liabilities by \$6,379,176,856.

The largest portion of the Department's net assets reflect its investments in capital assets (e.g., land, building, equipment, improvements, and infrastructure) less any debt and unspent bond proceeds used to acquire those assets that are still outstanding. Although the Department's investment in its capital assets is reported net of related debt and unspent bond proceeds, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

***The Department's Net Assets***

As of June 30, 2006 and 2005, the Department has positive balances in two categories of net assets, both for the government fund financial statement as a whole, as well as for its separate categories - governmental and business-type activities. Table A-1 summarizes the Department's net assets for the fiscal years ended June 30, 2006 and 2005.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued



Government-Wide Financial Analysis - continued

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 758,039,314	992,747,097	18,883,637	25,717,013	776,922,951	1,018,464,110
Capital assets and other	<u>7,232,952,905</u>	<u>7,319,984,025</u>	-	-	<u>7,232,952,905</u>	<u>7,319,984,025</u>
Total assets	7,990,992,219	8,312,731,122	18,883,637	25,717,013	8,009,875,856	8,338,448,135
Current liabilities	225,605,680	214,137,729	-	7,401,160	225,605,680	221,538,889
Long-term liabilities	<u>1,405,093,320</u>	<u>1,483,499,676</u>	-	-	<u>1,405,093,320</u>	<u>1,483,499,676</u>
Total liabilities	1,630,699,000	1,697,637,405	-	7,401,160	1,630,699,010	1,705,038,565
Net Assets:						
Invested in capital assets, net of related debt and unspent bond proceeds	5,756,153,765	5,998,598,694	-	-	5,756,153,765	5,998,598,694
Restricted	<u>601,139,454</u>	<u>616,495,023</u>	<u>18,883,637</u>	<u>18,315,853</u>	<u>18,883,637</u>	<u>634,810,876</u>
Total net assets	\$ <u>6,360,293,219</u>	<u>6,615,093,717</u>	<u>18,883,637</u>	<u>18,315,853</u>	<u>6,379,176,852</u>	<u>6,633,409,570</u>

**Analysis of the Department's Operations:** Table A-2 provides a summary of the Department's operations for the years ended June 30, 2006 and 2005. Governmental activities decreased the Department's net assets by \$285,589,213 in 2006 and by \$255,923,450 in 2005. Business-type activities increased the Department's net assets by \$567,784 in 2006 and \$312,969 in 2005 due to interest income earned during the year.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued



Government-Wide Financial Analysis - continued

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Capital grants	\$ 346,858,920	292,939,098	-	-	346,858,920	292,939,098
Operating grants	19,247,338	14,624,653	-	-	19,247,338	14,624,653
Charges for services	13,679,470	4,109,036	-	-	13,679,470	4,109,036
General revenues:						
Taxes	412,271,395	383,418,826	-	-	412,271,395	383,418,826
Interest income	27,191,910	13,052,347	567,784	312,969	27,759,694	13,365,316
Gain on disposal of assets	428,050	646,533	-	-	428,050	646,533
Total revenues	<u>819,677,083</u>	<u>708,790,493</u>	<u>567,784</u>	<u>312,969</u>	<u>820,244,867</u>	<u>709,103,462</u>
Expenses:						
Public works	507,163,867	375,622,936	-	-	507,163,867	375,622,936
Depreciation	514,838,292	502,651,435	-	-	514,838,292	502,651,435
Interest on long-term debt	75,087,737	77,615,938	-	-	75,087,737	77,615,938
Other	-	896,939	-	-	-	896,939
Total other expenses	<u>1,097,089,896</u>	<u>956,787,248</u>	<u>-</u>	<u>-</u>	<u>1,097,089,896</u>	<u>956,787,248</u>
Net revenues (loss) before transfers and reversions	(277,412,813)	(247,996,755)	567,784	312,969	(276,845,029)	(247,683,786)
Transfers and reversions	<u>(8,176,400)</u>	<u>(7,926,695)</u>	<u>-</u>	<u>-</u>	<u>(8,176,400)</u>	<u>(7,926,695)</u>
(Decrease) increase in net assets	(285,589,213)	(255,923,450)	567,784	312,969	285,021,429	(255,610,481)
Net assets, beginning of year	6,615,093,717	6,911,160,952	18,315,853	18,002,884	6,633,409,570	6,929,163,836
Adjustments	<u>30,788,715</u>	<u>(40,143,785)</u>	<u>-</u>	<u>-</u>	<u>30,788,715</u>	<u>(40,143,785)</u>
Net assets, end of year	\$ <u>6,360,293,219</u>	<u>6,615,093,717</u>	<u>18,883,637</u>	<u>18,315,853</u>	<u>6,379,176,856</u>	<u>6,633,409,570</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

**Government-Wide Financial Analysis - continued**

The changes in net assets for the Department's major funds for 2006 are as follows:

State Road Fund	\$ (18,452,884)
2004 GRIP Bond Project Fund	(223,764,967)
Local Government Road Fund	2,169,853
2004B/C GRIP Debt Service	-
2001 CHAT Debt Service	410,079
2004A GRIP Debt service	<u>1,639,383</u>
Major funds, net change in assets	\$ <u>237,998,536</u>

**Financial Analysis of the Government's Funds**

**Governmental Funds**

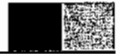
The Department's governmental funds are designed to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the Department's governmental funds reported combined ending fund balances of \$661,109,285, a decrease of \$229,589,491 from the prior year. Fund balance is reserved to indicate that it is not available for new spending because it has already been committed to provide for inventories, long term assets and prepaid items and other reserved items of \$601,139,454.

**Budgetary Highlights**

The Department budgets on a non-GAAP basis and not all funds are budgeted. See Exhibit 8 and Exhibit 11 for the Department's budget. The Department made revisions to the original approved budget by \$(54,138,044). Overall, these changes were caused by the following significant budget adjustments.

Increase in budget to replenish D-6's budget used for warranty work on U.S. 550	\$ 6,344,168
Increase in budget to increase cash balance and loan repayments	12,224,326
Increase in budget for Federal Highway Administrative allocation	116,738,710



**Budgetary Highlights - continued**

Increase in budget to fund projected shortfall in personnel services and employee benefits, grants and services for Alcohol Countermeasure Project	\$ 6,863,973
Increase in budget to fund projected shortfall in personnel services and employee benefits	3,520,000
Increase in budget to fund projected shortfall in GRIP Road Project	<u>1,238,000</u>
	\$ <u>143,412,697</u>

**Capital Assets Overview**

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$7,180,782,368 (net of accumulated depreciation). This investment in capital assets includes land, right of way, buildings, equipment, improvement and the infrastructure.

**Major Infrastructure Projects**

The Department develops plans to build a transportation system that will better serve the State of New Mexico. Advanced and innovative strategies include building roads using a corridor approach, where an entire route between communities is built. By designing and constructing entire corridors, the Department has been able to realize efficiencies to benefit the state. The Department also employs innovative project development techniques, warranty agreements and highly advanced financing techniques to accomplish the objectives of the Major Investment Program.

**Fiscal Year 2005-2006 Active Projects with a contract amount of \$10 million or more:**

- Sunland Park Drive Extension (phase II) for 1.320 km
- I-10, MP 34.200 to MP 44.800 for 10.600 miles
- US 54, MP 189.0 to 200.6, Vaughn to Duran for 11.610 Miles
- I-25, 2.48 km North of Alameda Interchange to Tramway
- I-40/Coors Interchange
- I-40, Pennsylvania to Tramway MP 163.64 to MP 167.88
- I-40, MP 169 to MP 174 for 4.602 miles
- I-40, MP 180.08 to 182.74, Sedillo Hill for 4.360 km
- NM 209, South of I-40 Interchange to NM 104/Maple Ave.
- I-40, Newkirk Interchange-East MP 300 to Mp 308 for 8.570

**Capital Assets Overview - continued**

US 64, Widening Project Raton to Clayton for 10.601 Miles  
 US 64, Raton to Clayton for 11.332 miles  
 US 64, MP 411 to MP 422 for 10.930 miles  
 1-40, MP 291 to MP 299 for 8.170 Miles  
 1-40, Business Loop, Santa Rosa for 3.400 km  
 US 84/285 North of Santa Fe from Opera House  
 NM 14, 0.5 Miles North of Cerrillos to Lone Butte  
 US 550, MP 18.231 to MP 23.301 for 8.190 km  
 US 84/285, Santa Fe Relief Route to Santa Fe Opera  
 1-40, MP 12 to 17, Gallup for 5.000 Miles  
 US 491 and NM 602 for 3.100 miles  
 US 70 D/B, MP 264.2 to MP 302.1, Ruidoso Downs to Riverside  
 US 84/285 North of Santa Fe from Santa Fe Opera  
 US 84/285, Santa Fe Relief Route to Santa Fe Opera

**Equipment**

For fiscal year 2006, the Equipment non-GAAP budget total was \$10.5 million. Of this budget, \$10.5 million was fully expended at June 30, 2006. Equipment purchased includes pickups, dump trucks, rollers, excavators, mowers, tractors, loaders, snowplows, brooms, dozers, motor graders, spreaders, millers, trailers, motor vehicles, etc. All items are approved during the legislative session prior to July of each fiscal year. The Department holds several sales and public auctions during the year to liquidate old and obsolete equipment to public and private entities.

**Table A-3  
Department's Capital Assets**

	<u>2006</u>	<u>2005</u>
Land	\$ 5,063,076	5,064,678
Right of way	371,809,740	360,549,775
Infrastructure	15,110,054,777	15,069,367,358
Equipment and furniture	50,982,903	50,050,041
Buildings	37,589,491	36,706,531
Vehicles	165,716,344	159,575,253
Accumulated depreciation	<u>(98,560,433,963)</u>	<u>(8,361,329,611)</u>
Total	\$ <u>7,180,782,368</u>	<u>7,319,984,025</u>

Additional information on the Department's capital assets can be found in Note 9 of this report.





**Debt Administration**

The Department is authorized to issue bonds by authority of Section 67-3-59.1 of the New Mexico Statutes Annotated (NMSA)(1978), as amended. The focus of the Department's bond program is to accelerate transportation construction projects while maintaining strong debt service coverage ratios and minimizing the costs of borrowing.

At June 30, 2006, the Department had a total outstanding debt (bonds) of \$1,455,505,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

**Table A-4  
Department's Outstanding Debt**

	<u>2006</u>	<u>2005</u>
Bonds, net	\$ <u>1,455,505,000</u>	<u>1,536,635,000</u>

The Department is authorized to issue bonds by authority of Section 67-3-59.1 of the New Mexico Statutes Annotated (NMSA)(1978), as amended. The focus of the Department's bond program is to accelerate highway construction projects while maintaining strong debt service coverage ratios and minimizing the costs of borrowing.

At the end of June 30, 2006, the Department had a total outstanding debt including capitalized leases and bonds, of \$1,455,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

The Department's total bond debt decreased by 5.28%, or \$81,130,000. Total outstanding bond debt at the end of the fiscal year was \$1,455,505,000, compared to \$1,536,635,000 at end of the 2005 fiscal year. Key factors affecting the department's twelve outstanding bond issues during the current fiscal year included bond principal repayments totaling \$81,130,000. The Department also made \$74,895,585 in interest payments during the fiscal year. The Department did not issue any new bonds during the current fiscal year. See Note 12 for a detail of all debt outstanding.

The Department did not pay any rebatable arbitrage to the Internal Revenue Service for any excess income earned on bond proceeds during the fiscal year, and did not have any remaining arbitrage liability at the end of the fiscal year.

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## Economic Factors and Revenue Forecasts

### *Economic and Demographic Characteristics*

New Mexico is the 36<sup>th</sup> largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the twelfth fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent. Most of this population growth is occurring in or near the larger cities. There are three Metropolitan Statistical Areas (MSA) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is Dona Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Dona Ana.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing and mining. In 2002, the value of energy resources production (crude petroleum, natural gas and coal) was approximately \$6.5 billion. Total value of energy and other mineral production was \$7.8 billion. The mining industry employed about 14,000 New Mexicans in 2002. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The state's major transportation routes include Interstate-25, running north-south from El Paso, Texas through Las Cruces, Albuquerque, Santa Fe, Las Vegas and Raton, New Mexico toward Pueblo and Denver, Colorado. Major east-west routes, especially important to interstate commercial carrier traffic, include Interstate-10 from El Paso, Texas to Tucson and Phoenix, Arizona, and Interstate-40 from Amarillo, Texas through Tucumcari, Albuquerque and Gallup, New Mexico to Flagstaff, Arizona.

### *Revenue Forecasts and Budgets*

#### *Federal Revenue*

**FHWA Revenue:** The amount of FHWA revenue (obligation authority) available to all states was limited in recent years as a result of Congress' failure to pass a transportation reauthorization bill, and to rely on continuing resolutions to provide FHWA funds. The amounts available to New Mexico were \$276 million in FY2005 and \$275 million in FY2006. In FY2006, the continuing resolution continued to limit the expenditure of FHWA funds through the year. However, a reauthorization bill was finally passed that increased funding for FY2006 and the subsequent four years. The reauthorization bill provides "apportionment" or annual distribution amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

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**Economic Factors and Revenue Forecasts - continued****Revenue Forecasts and Budgets - continued*****Federal Revenue - continued*****FHWA Revenue - continued:**

The Department projects FHWA aggregate authorization should increase over the four year period as follows: \$325 million in FY2005, \$333 million in FY 2006, \$350 million in FY 2007, \$365 million in FY 2008, and \$371 million in FY 2009.

**Federal Transit and Traffic Safety Revenue:** The six-year reauthorization of federal transportation funding to the states that was recently passed by Congress is entitled the "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21<sup>st</sup> Century – A Legacy for Users" (SAFETEA-LU). The reauthorization bill stresses the importance of safety innovations, including a new "Safe Routes to School Program" that promotes walking and riding bicycles to school. With this emphasis on safety, it is expected there will be increased federal revenue available to states for traffic safety and transit programs. The Department anticipates the total amount of funding from the Federal Transit Administration (FTA) and federal traffic safety (NHTSA) will increase from the \$13 million level in past years to \$20.1 million in FY 2007.

**DOE Revenue:** The Department of Energy will continue to provide New Mexico with approximately \$20 million per year through FY 2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, New Mexico. The amount of this revenue budgeted for debt service was \$20.7 million in FY 2004, \$21.1 million in FY 2005, \$19.8 million in FY2006, \$15.7 million in FY 2007, and \$14.7 million in FY 08.

***State Revenue***

The budget estimate for state tax and fee revenue to the Department is prepared in July/August and December/January each year for the budget year ending 24 months (or 18 months) later.

In the past several years, gasoline tax revenue has come in very close to the budget forecast, with gains associated with tribal tax sharing agreements being offset by losses associated with higher gasoline retail prices and slight decreases in consumption. Diesel fuel tax revenue came in stronger than forecast, and reflected an invigorated trucking industry relative to the prior few years. Other truck taxes came in close to forecast, but reflected some degree of tax compliance problems, since one would expect those taxes to show the same strength shown in diesel fuel tax. Vehicle registration revenue has come in close to the forecast. Motor Carrier related taxes represent a significant contribution to the State Road Fund.

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**Economic Factors and Revenue Forecasts - continued****Revenue Forecasts and Budgets - continued****State Revenue - continued****Special Fuels Tax**

New Mexico's Special Fuels Tax is unit tax imposed on gallons used – an increase in price does not result in an increase in tax revenue. FY 06 was very strong for Special Fuels Tax revenue yielding 11% more than the amount collected in FY 05. The forecast for FY 08 is for \$103.4 million which amounts to an increase of 7.7% over the FY 07 budget. The relative strength of fuel tax revenues has significant impact on the Department of Transportation's overall revenue forecast.

The revenue forecast for the FY2007 proposed budget has assumed a continued healthy national economy, but with motor fuel retail prices settling at a new higher level. Compliance improvements in Trip Tax revenue associated with the new vehicle-specific weight-distance tax identification permit appear to have increased.

**Background -- Trip Tax and the Weight-Distance Tax Identification Permit:** The elimination of the \$6 fee associated with Weight-Distance Tax Identification Permits (tax qualification cards), pursuant to the settlement of *C.R. England v. New Mexico* resulted in a reported large increase in the number of tax qualification cards requested by the industry in 2003 and 2004, and probably explains the decrease in revenue associated with the higher Trip Tax rates administered at state ports-of-entry. Legislation passed during the 2003 Special Session of the Legislature required a return to issuing Weight Distance Tax Identification Permits to individual vehicles rather than issuing a single permit to each motor carrier company. The vehicle-specific tax identification permit (effective July 1, 2004, but not widespread until January 1, 2005) was expected to enhance tax compliance efforts and gradually augment Trip Tax revenue to some degree beginning in calendar year 2005. Beginning in March 2005, Trip Tax revenue began to increase dramatically.

**Background -- Gasoline Tax and Tribal Tax Sharing Agreements:** 2003 and 2004 legislation allowed the state to enter into "tax sharing agreements" with the two Native American Pueblos that were previously entitled to market a limited amount of state-tax-free gasoline outside reservation boundaries. Under the agreements, 40% of the tax collected on 30 million gallons of gasoline per year will be shared with each of the two Pueblos, in exchange for the Pueblos ceasing their sales activities outside reservation boundaries. The result of these agreements (entered into on January 1, 2004 and July 1, 2004) should be a small revenue gain for the state and significantly more predictable gasoline revenues.



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**Economic Factors and Revenue Forecasts - continued**

**Revenue Forecasts and Budgets - continued**

**State Revenue - continued**

The state permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. The growth in tribal market share has out-paced the overall growth rate of gasoline in recent years as a result of competitive pricing, casino traffic, and development of new tribal travel centers. It is anticipated that the tribal market share will continue to grow, but at a decreasing rate over the next few years.

**Contacting the Agency's Financial Management**

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

Attn: Elias J. Martinez, M.B.A.  
Financial Reporting Manager  
New Mexico Department of Transportation  
1120 Cerrillos Road  
P.O. Box 1149  
Santa Fe, New Mexico 87504-1149  
(505) 827-5155

## **FINANCIAL STATEMENTS**

AS OF JUNE 30, 2006

<i>ASSETS</i>	<u>Governmental Activities</u>	<u>Business-type Activities (State Infrastructure Bank</u>	<u>Total</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 2):			
Unrestricted	\$ 91,680,839	-	91,680,839
Restricted	511,288,266	10,765,589	522,053,855
Receivables:			
Tax receivable	48,508,742	-	48,508,742
Accounts receivable, net (Note 3)	2,265,342	-	2,265,342
Severance tax bond proceeds receivable (Note 4)	55,475,345	-	55,475,345
Interest receivable	2,506,733	75,801	2,582,534
Notes and loans receivable (Note 5)	27,672	8,042,247	8,069,919
U.S. Department of Transportation, net (Note 6)	25,100,543	-	25,100,543
Capitalized issuance costs	833,960	-	833,960
Inventories (Note 8)	12,514,297	-	12,514,297
Prepaid expense - warranty	3,189,034	-	3,189,034
Property held for resale, net	<u>4,648,541</u>	<u>-</u>	<u>4,648,541</u>
<b>TOTAL CURRENT ASSETS</b>	<b>758,039,314</b>	<b>18,883,637</b>	<b>776,922,951</b>
<b>NON-CURRENT ASSETS:</b>			
Capitalized issuance costs	9,721,205	-	9,721,205
Prepaid expense - warranty	42,449,332	-	42,449,332
Capital assets, net (Note 9)	<u>7,180,782,368</u>	<u>-</u>	<u>7,180,782,368</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b><u>7,232,952,905</u></b>	<b><u>-</u></b>	<b><u>7,232,952,905</u></b>
<b>TOTAL ASSETS</b>	<b>\$ <u>7,990,992,219</u></b>	<b><u>18,883,637</u></b>	<b><u>8,009,875,856</u></b>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets - continued

AS OF JUNE 30, 2006

<i>LIABILITIES</i>	<u>Governmental Activities</u>	<u>Business-type Activities (State Infrastructure Bank</u>	<u>Total</u>
<b>CURRENT LIABILITIES:</b>			
Accounts payable and contracts payable, including retainage of \$5,890,401	\$ 53,209,418	-	53,209,418
Due to other state agencies	-	-	-
Accrued payroll, taxes and withholdings	8,066,115	-	8,066,115
Accrued interest	3,120,649	-	3,120,649
Deferred revenue	21,689,504	-	21,689,504
Arbitrage rebate obligation (Note 21)	-	-	-
Other liabilities	105,019	-	105,019
Due to others - Severance Taxes	55,475,345	-	55,475,345
Current portion of long-term obligations (Note 12):			
Compensated absences	5,100,000	-	5,100,000
Debentures payable	75,295,000	-	75,295,000
Capitalized bond premium	<u>4,276,465</u>	-	<u>4,276,465</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>226,337,515</b>	<b>-</b>	<b>226,337,515</b>
<b>LONG-TERM LIABILITIES:</b>			
Arbitrage rebate obligation (Note 21)	-	-	-
Long-term obligations (Note 12):			
Compensated absences	731,835	-	731,835
Debentures payable	1,349,333,603	-	1,349,333,603
Capitalized bond premium	<u>54,296,047</u>	-	<u>54,296,047</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b><u>1,404,361,485</u></b>	<b>-</b>	<b><u>1,404,361,485</u></b>
<b>TOTAL LIABILITIES</b>	<b>\$ <u>1,630,699,000</u></b>	<b>-</b>	<b><u>1,630,699,000</u></b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of any related debt and unspent debt proceeds	\$ 5,756,153,765	-	5,756,153,765
Restricted for:			
Loans	-	18,883,637	18,883,637
Specific purposes	<u>604,139,454</u>	-	<u>604,139,454</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>6,360,293,219</u></b>	<b><u>18,883,637</u></b>	<b><u>6,379,176,856</u></b>



## NEW MEXICO DEPARTMENT OF TRANSPORTATION

## Statement of Activities

YEAR ENDED JUNE 30, 2006

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
<b>PROGRAM EXPENSES:</b>			
Public works - roads	\$ 505,448,532	-	505,448,532
Depreciation and amortization	514,838,292	-	514,838,292
Interest	<u>78,094,091</u>	-	<u>78,094,091</u>
<b>TOTAL PROGRAM EXPENSES</b>	<b>1,098,380,915</b>	<b>-</b>	<b>1,098,380,915</b>
<b>PROGRAM REVENUES:</b>			
Charges for services	14,552,417	-	14,552,417
Operating grants	19,247,338	-	19,247,338
Capital grants	<u>346,858,920</u>	-	<u>346,858,920</u>
<b>TOTAL PROGRAM REVENUES</b>	<b><u>380,658,675</u></b>	<b>-</b>	<b><u>380,658,675</u></b>
<b>NET PROGRAM (EXPENSE) REVENUE</b>	<b>(717,722,240)</b>	<b>-</b>	<b>(717,722,240)</b>
<b>GENERAL REVENUES:</b>			
User and fuel taxes	412,271,395	-	412,271,395
Interest income	27,191,910	567,784	27,759,694
Gain on disposal of assets	<u>428,050</u>	-	<u>428,050</u>
<b>TOTAL GENERAL REVENUES (EXPENSES)</b>	<b>439,891,355</b>	<b>567,784</b>	<b>440,459,139</b>
<b>TRANSFERS:</b>			
Transfers to other state agencies and local governments, net (Note 14)	<u>(8,176,400)</u>	-	<u>(8,176,400)</u>
<b>TOTAL TRANSFERS</b>	<b><u>(8,176,400)</u></b>	<b>-</b>	<b><u>(8,176,400)</u></b>
<b>NET GENERAL REVENUES AND TRANSFERS</b>	<b><u>431,714,955</u></b>	<b><u>567,784</u></b>	<b><u>432,282,739</u></b>
<b>CHANGE IN NET ASSETS/OPERATING INCOME</b>	<b>(286,007,285)</b>	<b>567,784</b>	<b>(285,439,501)</b>
<b>NET ASSETS, BEGINNING OF FISCAL YEAR</b>	<b>6,615,093,717</b>	<b>18,315,853</b>	<b>6,633,409,570</b>
Restatement (Note 22)	<u>31,206,787</u>	-	<u>31,206,787</u>
<b>NET ASSETS, BEGINNING OF FISCAL YEAR</b>	<b>6,646,300,504</b>	<b>18,315,853</b>	<b>6,664,616,357</b>
<b>NET ASSETS, END OF FISCAL YEAR</b>	<b>\$ <u>6,360,293,219</u></b>	<b><u>18,883,637</u></b>	<b><u>6,379,176,856</u></b>

AS OF JUNE 30, 2006

	Major Funds							Total Governmental Funds
	State Road Fund	Bond Project Fund (2004A, GRIP)	Local Government Road Fund	Debt Service (2001 CHAT)	Debt Service (2004A GRIP)	Debt Service (2004B/C GRIP)	Other Governmental Funds	
<b>ASSETS:</b>								
Cash and cash equivalents (Note 2)								
Unrestricted	\$ 66,393,067	90	20,723,524	796,206	-	-	63,360,819	151,273,706
Restricted	36,299,373	415,396,026	-	-	-	-	-	451,695,399
Receivables:								
Taxes receivable	44,365,127	-	3,453,438	1,537	-	-	688,640	48,508,742
Accounts Receivable, net (Note 3)	2,066,226	198,377	-	-	-	-	739	2,265,342
Severance Tax Bond Proceeds Receivable (Note 4)	55,475,345	-	-	-	-	-	-	55,475,345
Interest Receivable	730,716	1,210,240	187,241	35,955	-	-	342,581	2,506,733
Notes and Loans Receivable (Note 5)	27,672	-	-	-	-	-	-	27,672
Due From:								
Due from Other Funds (Note 7)	107,491,437	-	-	-	-	-	23,780,346	131,271,783
U.S. Department of Transportation, net (Note 6)	23,183,713	-	-	-	-	-	1,916,830	25,100,543
Inventories (Note 8)	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid Expense - NM44 Warranty	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,531	-	-	-	-	-	-	4,648,531
<b>TOTAL ASSETS</b>	\$ 398,833,880	416,804,733	24,364,203	833,698	-	-	90,089,955	930,926,469
<b>LIABILITIES AND FUND BALANCES:</b>								
<b>LIABILITIES:</b>								
Accounts payable	38,380,909	11,398,650	967,681	-	-	-	2,462,178	53,209,418
Due to other funds (Note 7)	100,501,750	16,062,233	1,826,039	-	-	-	12,881,761	131,271,783
Deferred revenue	20,892,250	-	-	-	-	-	797,254	21,689,504
Due to others	55,475,345	-	-	-	-	-	-	55,475,345
Other accrued expenses	7,972,900	-	-	-	-	-	93,215	8,066,115
Other payables	-	105,019	-	-	-	-	-	105,019
<b>TOTAL LIABILITIES</b>	223,223,154	27,565,902	2,793,720	-	-	-	16,234,408	269,817,184
<b>FUND BALANCES:</b>								
Reserved for:								
Inventories	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid expenses	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,366	-	-	-	-	-	-	4,648,366
Unreserved-undesignated (Note 21)	112,809,697	389,238,831	21,570,483	-	-	-	57,911,787	581,530,798
Unreserved, reported in non-major:								
Special revenue funds	-	-	-	-	-	-	13,824,705	13,824,705
Capital projects funds	-	-	-	833,698	-	-	2,119,055	2,952,753
Debt service funds	-	-	-	-	-	-	73,855,547	661,109,285
<b>TOTAL FUND BALANCES</b>	175,610,726	389,238,831	21,570,483	833,698	-	-	90,089,955	661,109,285
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 398,833,880	416,804,733	24,364,203	833,698	-	-	90,089,955	930,926,469

See Notes to Financial Statements.

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

*YEAR ENDED JUNE 30, 2006*

**Total Fund Balance - Governmental Funds**  
(Governmental Fund Balance Sheet)

\$ 661,109,285

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

The cost of capital assets is:	\$	15,741,216,331
Accumulated depreciation is:		<u>(8,560,433,963)</u>

Total capital assets		7,180,782,368
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Long-term debt not recorded as liabilities in the governmental funds, but recorded as long-term liabilities in the Statement of Net Assets:

Debentures payable		(1,426,343,958)
Compensated absences		(5,831,835)
Amortization of deferred costs on refunding not recorded by the government funds		1,715,355

Accrued of interest on long-term obligations not recorded by the governmental funds until paid.		(3,120,649)
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Capitalized issuance costs not recorded in the governmental funds as an asset, net of amortization.		10,555,165
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Capitalized bond premiums not recorded in the governmental funds as a liability, net of amortization.		<u>(58,572,512)</u>
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<b>Net assets of governmental activities (Statement of Net Assets)</b>	<b>\$</b>	<b><u>6,360,293,219</u></b>
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NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2006	State Road Fund	Bond Project Fund (2004A GRIP)	Local Government Road Fund	Debt Service (2001 CHAT)	Debt Service (2004A GRIP)	Debt Service (2004B/C GRIP)	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>								
User and fuel taxes	\$ 586,475,663	-	22,084,495	-	-	-	3,711,237	412,271,395
U.S. Department of Transportation	282,673,625	-	-	-	-	-	12,495,236	295,169,120
U.S. Department of Energy	27,843,754	-	-	-	-	-	1,753,264	29,597,018
N.M. Department of Human Services	-	-	-	-	-	-	4,740	12,787,318
Miscellaneous	12,782,578	-	-	-	-	-	1,185,849	13,968,427
DWI Interlock Device	-	19,738,185	817,790	410,079	-	-	2,746,192	27,191,910
Interest Revenue	3,479,664	-	-	-	-	-	-	3,479,664
<b>TOTAL REVENUES</b>	<b>715,255,494</b>	<b>19,738,185</b>	<b>22,902,285</b>	<b>410,079</b>	<b>-</b>	<b>-</b>	<b>21,896,577</b>	<b>778,202,610</b>
<b>EXPENDITURES:</b>								
Current:								
Operating costs	9,576,750	-	-	-	-	-	90,580	9,467,330
Personal services	90,872,933	-	-	-	-	-	746,308	91,619,236
Out-of-state travel	295,819	-	-	-	-	-	40,042	335,861
Grants and services	4,574,796	-	20,732,431	-	-	-	15,979,062	41,086,289
Travel	18,818,676	-	-	-	-	-	41,423	18,860,099
Maintenance and repairs	8,528,312	-	-	-	-	-	51,047	8,579,359
Supplies	50,978,829	-	-	-	-	-	46,980	51,025,809
Contractual services	253,971,643	4,576,967	-	-	-	-	3,253,984	261,804,594
Other costs	10,031,914	-	-	-	-	-	16,277	10,048,191
Employee benefits	49,180,064	-	-	-	-	-	257,149	49,437,213
Capital outlay	134,235,754	256,149,773	-	-	-	-	5,694,170	376,069,697
Debt service:								
Interest and other charges	5,202,964	-	-	7,088,598	36,216,759	16,309,336	15,281,095	78,098,570
Principal	-	-	-	14,875,000	-	27,940,000	98,315,000	61,130,000
<b>TOTAL EXPENDITURES</b>	<b>606,856,974</b>	<b>240,726,740</b>	<b>20,732,431</b>	<b>21,963,598</b>	<b>36,216,759</b>	<b>44,249,336</b>	<b>79,805,110</b>	<b>1,050,560,743</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>106,388,510</b>	<b>(220,988,555)</b>	<b>2,169,854</b>	<b>(21,553,519)</b>	<b>(36,216,759)</b>	<b>(44,249,336)</b>	<b>(57,908,533)</b>	<b>(272,358,138)</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
Proceeds from long-term debt, net	-	-	-	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-	-	-	-
Severance Tax Bond revenue	22,660,197	-	-	-	-	-	-	22,660,197
State General Fund revenue	19,247,538	-	-	-	-	-	-	19,247,538
Other use	-	-	-	-	-	-	-	-
Transfers in	2,648,475	-	-	21,963,598	37,856,142	44,249,336	59,545,772	160,263,123
Transfers out	(170,258,516)	(2,776,412)	-	-	-	-	12,771,805	(160,263,123)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(125,702,506)</b>	<b>(2,776,412)</b>	<b>-</b>	<b>21,963,598</b>	<b>37,856,142</b>	<b>44,249,336</b>	<b>66,317,577</b>	<b>41,907,535</b>
<b>SPECIAL ITEM:</b>								
Proceeds from Sale of Capital Assets	861,112	-	-	-	-	-	-	861,112
<b>NET CHANGES IN FUND BALANCES</b>	<b>(18,452,884)</b>	<b>(223,764,967)</b>	<b>2,169,854</b>	<b>410,079</b>	<b>1,639,383</b>	<b>-</b>	<b>8,409,044</b>	<b>(229,539,491)</b>
<b>FUND BALANCES, June 30, 2005</b>	<b>158,666,205</b>	<b>619,332,742</b>	<b>17,680,376</b>	<b>423,619</b>	<b>(1,639,383)</b>	<b>-</b>	<b>65,028,409</b>	<b>859,491,968</b>
<b>RESTATEMENT (Note 2)</b>	<b>35,397,405</b>	<b>(6,328,944)</b>	<b>1,720,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>418,094</b>	<b>31,206,808</b>
<b>FUND BALANCES, June 30, 2006, Restated</b>	<b>194,063,610</b>	<b>613,003,798</b>	<b>19,400,629</b>	<b>423,619</b>	<b>(1,639,383)</b>	<b>-</b>	<b>65,446,503</b>	<b>890,698,716</b>
<b>FUND BALANCES, June 30, 2006</b>	<b>175,610,726</b>	<b>589,238,831</b>	<b>21,570,483</b>	<b>833,698</b>	<b>-</b>	<b>-</b>	<b>75,855,547</b>	<b>661,109,285</b>

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances - Total Governmental Funds  
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (229,589,491)

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

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The increase in the liabilities for the fiscal year was: (77,786)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:

Capital outlay	\$ 376,069,697
Depreciation expense	(514,838,292)
Sale of fixed asset, net book value	<u>(433,062)</u>

Excess of depreciation expense over capital outlay (139,201,657)

Repayment of debentures recorded as expenditures in the governmental funds, recorded as a reduction in long-term liabilities in the Statement of Net Assets. 81,130,000

Deferred amount of debt recorded as a reduction of long-term liabilities in the Statement of Activities (833,960)

Bond premiums recorded in the governmental funds as an other financing source, recorded as a liability in the Statement of Net Assets, net of amortization of \$58,572,512, recorded as a reduction of interest expense in the Statement of Activities. 4,276,465

Bond issuance costs recorded in the governmental funds as other costs, recorded as an asset in the Statement of Net Assets, net of amortization of \$10,555,165, recorded as an expense in the Statement of Activities. (1,715,335)

Net change in accrual of long-term debt interest expense not recorded in the governmental funds until paid. 4,479

Change in net assets of governmental activities  
(Statement of Activities) \$ (286,007,285)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets  
Business-type Activities - Enterprise Fund



YEAR ENDED JUNE 30, 2006

State Infrastructure Bank

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents (Note 2):	\$	-
Unrestricted		10,765,589
Restricted		
Receivables:		-
Tax receivable		-
Accounts receivable, net (Note 3)		-
Severance tax bond proceeds receivable (Note 4)		75,801
Interest receivable		8,042,247
Notes and loans receivable (Note 5)		-
U.S. Department of Transportation, net (Note 6)		-
Capitalized issuance costs		-
Inventories (Note 8)		-
Prepaid expense - warranty		-
Property held for resale, net		-
		<u>18,883,637</u>

**TOTAL CURRENT ASSETS**

**NON-CURRENT ASSETS:**

Capitalized issuance costs		-
Prepaid expense - warranty		-
Capital assets, net (Note 9)		-
		<u>-</u>

**TOTAL NON-CURRENT ASSETS**

**TOTAL ASSETS**

\$ 18,883,637

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets  
Business-type Activities - Enterprise Fund - continued



YEAR ENDED JUNE 30, 2006

**LIABILITIES**

**State Infrastructure Bank**

**CURRENT LIABILITIES:**

Accounts payable and contracts payable	\$	-
Due to other state agencies		-
Accrued payroll, taxes and withholdings		-
Accrued interest		-
Deferred revenue		-
Arbitrage rebate obligation (Note 21)		-
Other liabilities		-
Due to others - Severance Taxes		-
Current portion of long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-

**TOTAL CURRENT LIABILITIES**

-

**LONG-TERM LIABILITIES:**

Arbitrage rebate obligation (Note 21)		-
Long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-

**TOTAL LONG-TERM LIABILITIES**

-

**TOTAL LIABILITIES**

\$ -

**NET ASSETS:**

Invested in capital assets, net of any related debt and unspent debt proceeds	\$	-
Restricted for:		
Loans		18,883,637
Specific purposes		-

**TOTAL NET ASSETS**

\$ 18,883,637

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities  
Business-type Activities - Enterprise Fund



YEAR ENDED JUNE 30, 2006

	<u>State Infrastructure Bank</u>
<b>PROGRAM EXPENSES:</b>	
Public works - roads	\$ -
Depreciation and amortization	-
Interest	-
<b>TOTAL PROGRAM EXPENSES</b>	-
<b>PROGRAM REVENUES:</b>	
Charges for services	-
Operating grants	-
Capital grants	-
<b>TOTAL PROGRAM REVENUES</b>	-
<b>NET PROGRAM (EXPENSE) REVENUE</b>	-
<b>GENERAL REVENUES:</b>	
User and fuel taxes	-
Interest income	567,784
Gain on disposal of assets	-
<b>TOTAL GENERAL REVENUES (EXPENSES)</b>	567,784
<b>TRANSFERS:</b>	
Transfers to other state agencies and local governments, net (Note 14)	-
<b>TOTAL TRANSFERS</b>	-
<b>NET GENERAL REVENUES AND TRANSFERS</b>	567,784
<b>CHANGE IN NET ASSETS/OPERATING INCOME</b>	567,784
<b>NET ASSETS, BEGINNING OF FISCAL YEAR</b>	18,315,853
Restatement (Note 22)	-
<b>NET ASSETS, BEGINNING OF FISCAL YEAR</b>	18,315,853
<b>NET ASSETS, END OF FISCAL YEAR</b>	\$ <u>18,883,637</u>



NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Cash Flows  
Business-type Activities - Enterprise Fund



YEAR ENDED JUNE 30, 2006

	<u>State Infrastructure Bank</u>
Cash flows provided from operating activities:	
Interest income received	\$ 524,368
Cash flows used from financing activities:	
Loans issued	(7,401,160)
Loans repaid	<u>2,331,100</u>
Net decrease in cash and cash equivalents	(4,545,692)
Cash and cash equivalents at June 30, 2005	<u>15,311,281</u>
Cash and cash equivalents at June 20, 2006	\$ <u><u>10,765,589</u></u>
Reconciliation of operating income to net cash provided from operating activities:	
Operating income	\$ 567,784
Adjustment to reconcile operating income to net cash by operating activities:	
Increase in interest receivables	<u>(43,416)</u>
Cash flows provided by operating activities	\$ <u><u>524,368</u></u>



## NATURE OF ORGANIZATION

The New Mexico Department of Transportation (Department), formerly known as the New Mexico State Highway and Transportation Department, within the State of New Mexico is responsible for planning, organizing and directing a comprehensive transportation network. The Department was created by the Constitution of New Mexico, Article V, Section 14; and Sections 67-3-1 through 67-3-70, New Mexico Statutes Annotated, 1978 Compilation. The Highway & Transportation Department Reorganization Bill (House Bill 210) created the Department as of July 1, 1987. Under this reorganization act, portions of the Transportation Department were merged into the Department to create the Department's Aviation and Transportation Divisions. On April 4, 2003, the Governor signed a bill changing the Department's name to the New Mexico Department of Transportation.

The governing body of the Department is a six person State Highway Commission. Commissioners are appointed by the Governor, with the advice and consent of the Senate, and each serves for staggered six-year terms.

### *Financial Reporting Entity*

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Even though the Governor appoints the Commission, the Commission has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. Effective July 1, 2003, GASB 39, *Determining Whether Certain Organizations are Component Units*, expands the criteria of component units. GASB 39 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2006.

The Department, the New Mexico Finance Authority (NMFA) and the Federal Highway Administration (FHWA) established a State Infrastructure Bank (SIB) on September 30, 1997. The SIB is a revolving loan program accounted for as a business-type operation - enterprise fund and is administered by the Department to finance highway projects. The initial capitalization for the SIB came from the Highway Department's allotment of federal funds. The Department matched the federal funds based on the required matching percentage from state funds.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB has issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These Statements established the financial reporting requirements for state and local governments throughout the United States. The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. The Department has prepared required supplementary information entitled, *Management's Discussion and Analysis*, which precedes the basic financial statements.

**◆ Government-Wide and Fund Financial Statements**

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all of the non-fiduciary activities of the Department. The effect of material interfund activity has been removed from these government-wide statements. Governmental activities, primarily the construction and maintenance of the State's road system, which normally is supported by taxes and intergovernmental revenues, are reported separately from the business-type activities of the SIB, which to a significant extent acts as a business, loaning funds to other entities and charging interest on the loans. Operating income for the SIB is interest income. All other income, if any, would be non-operating income to the SIB.

**◆ Basis of Presentation**

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department function of building and maintaining the State's road system (public works). Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a department. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements for public works. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Department does not allocate general government expenses to other functions except for public works. When both restricted and unrestricted resources are available for use, the Department's policy is to first use restricted resources, then unrestricted resources.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### ◆ *Basis of Presentation - continued*

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, it is generally the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental funds are reported as major funds in the accompanying financial statements if they meet *both* of the following criteria:

- *Ten percent criterion.* An individual governmental fund reports at least ten percent of *any* of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.
- *Five percent criterion.* An individual governmental fund reports at least five percent of the total for both governmental and enterprise funds of any of the items for which it met the ten percent criterion.

The Department's major governmental funds are the following:

***State Road Fund-CAS Fund No. 201*** - The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Section 67-3-59 NMSA establishes that this is a non-reverting fund. This is a special revenue fund.

***Bonds Project Fund-2004A GRIP*** - The bonds project fund was created when the \$700,000,000 New Mexico State Transportation Senior Lien Revenue Bonds Series 2004A were issued through the New Mexico Finance Authority in May 2004. The funds from the sale of the Debentures were required to be deposited in a special account with the NMFA. Unspent proceeds are on deposit with the NMFA and recorded as due from other state agencies. The funds are used to finance transportation projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. The fund does not receive state general fund appropriations that are subject to reversion. This is a special revenue fund.

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

**Debt Service Fund - 2004A GRIP** - This fund was created when the \$700,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bond Series 2004A were issued through the New Mexico Finance Authority in 2004. The fund does not receive state general fund appropriations that are subject to reversion.

**Debt Service Fund - 2004B and C GRIP** - This fund was created when the \$237,950,000 and \$200,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bonds Series 2004B and Series 2004C were issued through the New Mexico Finance Authority in May 2004. The fund does not receive state general fund appropriations that are subject to reversion.

**Local Government Road Fund** - The local government road fund was created by Section 67-3-28.2, NMSA 1978. This fund is used to account for monies received for (1) cooperative agreements program for construction and improvement of public highways and streets, and public school parking lots; (2) a municipal arterial program for construction for reconstruction of highways and streets not on the state highway systems; (3) a school bus route program for maintaining, repairing, improving and paving school bus routes, and public school parking lots; and (4) a county arterial program for construction, reconstruction, improvement and maintenance of county roads. Funding is received from state excise taxes. The fund does not receive state general fund appropriations that are subject to reversion. This is a special revenue fund.

**Debt Service - 2001 CHAT Bonds** - Created when the \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A were issued in March 2001.

◆ **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**Government-Wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.



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

◆ **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

**Business Type - Proprietary Fund - State Infrastructure Bank (SIB) Financial Statements** - The financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

A proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The SIB has elected to not apply FASB pronouncements issued after the applicable date.

**Governmental Fund Financial Statements** - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days after year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested compensated absences are recorded as an expenditure when utilized. The amount of accumulated compensated absences unpaid at June 30, 2006, has been reported only in the government-wide financial statements.
- Interest and principal payments on general long-term obligations is recognized as expenditures when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

The financial activities of the Department are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The measurement focus is on the flow of expendable financial resources, rather than on net income determination. The following are the governmental fund types used:

***Special Revenue Funds*** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Road Fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Resources are generated primarily from user and fuel taxes and federal grants. Expenditures are incurred to build and improve the transportation system within the State of New Mexico. These funds do not receive state general fund appropriations that are subject to reversion.

Federal Planning and Development Fund - This fund is authorized by the Commission to account for the planning and administration of federal grant monies and state matching funds for mass transportation and railroad improvements. The fund does not receive state general fund appropriations that are subject to reversion.

Traffic Safety Fund (CAS Fund #208). This fund is authorized by the Commission to account for federal grant monies and state matching monies received for various traffic safety programs.

State Aviation Fund (CAS Fund #205). The State Aviation Fund was created by Section 64-1-15, NMSA 1978. This fund is used to account for planning, construction and maintenance of a system of airports, navigation aids and related facilities serving New Mexico. Financing is provided from all unrefunded taxes collected on the sale of motor fuel sold for use in aircraft.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*****Special Revenue Funds - continued***

Motorcycle Training Fund (CAS Fund #206). The motorcycle training fund was created by Section 66-10-10, NMSA 1978. This fund is used to account for the operation of a motorcycle safety training program. Financing is provided from motorcycle registration fees and student training fees. All money in the motorcycle training fund in excess of amounts budgeted revert to the State Road Fund.

Driver Improvement Program Fund. The driver improvement program fund was created by Executive Order 87-20. This fund is used to account for the operation of a driver improvement program. Financing is provided from fees collected for drivers' manuals and admissions to driver training courses.

DWI Prevention and Education Fund (CAS Fund #207). The DWI prevention and education fund was created by Section 66-5-35, NMSA 1978. This fund is used to account for the operation of a DWI (Driving While Intoxicated) prevention and education program for elementary and secondary school students. Financing is provided from limited license and permit fees.

Bond Project Fund (1993 Bonds) (CAS Fund #394). The bond project fund was created due to the issuance of the December 1993 \$50,000,000 State of New Mexico Highway Debentures. The funds from the sale of all of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations held by the State Treasurer with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004). The bond project fund was created due to the issuance of the December 1996 \$100,000,000 State of New Mexico Highway Debentures and the \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B issued in October 1998. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one



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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*****Special Revenue Funds - continued***

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004) - continued. year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (1998 & 1999 CHAT) (CAS Fund #546). The bond project fund was created due to the issuance of the October 1998 \$105,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1998A and the \$100,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1999 issued in November 1999. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2000 CHAT) (CAS Fund #345). The bond project fund was created due to the issuance of the May 2000 \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2001 CHAT) (CAS Fund #006). The bond project fund was created due to the issuance of the March 2001 \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*****Special Revenue Funds - continued***

Bond Project Fund (2001 CHAT) (CAS Fund #006) - continued.

funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002A CHAT) (CAS Fund #368). The bond project fund was created due to the issuance of the January 2002 \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002C HIF) (CAS Fund #361). The bond project fund was created due to the issuance of the May 2002 \$67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Highway Bonds Series 2002C. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002D CHAT) (CAS Fund #115). The bond project fund was created due to the issuance of the December 2002 \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

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

◆ **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

**Debt Service Funds** - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service requirements are met through the monthly transfer of vehicle and gasoline tax revenues from the State Road Fund. The Department may transfer interest earned on the other bond issues to their respective debt service funds. These funds do not receive state general fund appropriations that are subject to reversion.

Debt Service - 1993 Bonds (CAS Fund #261). Created when the \$50,000,000 State of New Mexico Highway Debentures Series were issued in 1993.

Debt Service - WIPP Bonds (CAS Fund #211, 677 and 972). Created when the \$100,000,000 New Mexico State Highway Commission Adjustable Tender Subordinate Lien Tax Revenue Highway Bonds were issued in December 1996 and subsequently refunded in January 2002, creating the 2002 WIPP Bonds and the \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bond Series 1998B, issued in October 1998.

Debt Service - 1998 CHAT Bonds (CAS Fund #548). Created when the \$105,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1998A were issued in October 1998.

Debt Service - 1998 NMFA Loan. Created when the \$100,230,000 loan agreement with the New Mexico Finance Authority was signed in October 1998.

Debt Service - 1999 CHAT Bonds (CAS Fund #434). Created when the \$100,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1999 were issued in November 1999.

Debt Service - 2000 CHAT Bonds (CAS Fund #432). Created when the \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A were issued in May 2001.

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

◆ **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

**Debt Service Funds - continued**

Debt Service - 2001 NMFA Loan. Created when the \$18,535,000 loan agreement with the New Mexico Finance Authority was signed in March 2001.

Debt Service - 2002A CHAT Bonds (CAS Fund #547). Created when the \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A were issued in January 2002.

Debt Service - 2002B WIPP Bonds (CAS Fund #750). Created when the \$79,920,000 New Mexico State Highway Commission Lien Tax Revenue Bonds Series 2002B were issued in January 2002.

Debt Service - 2002C HIF Bonds (CAS Fund #363). Created when the \$67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Bonds Series 2002C were issued in May 2002.

Debt Service - 2002D CHAT Bonds (CAS Fund #187). Created when the \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D were issued in December 2002.

**Capital Projects Fund** - The Capital Projects Fund is used to account for the purchase or construction of facilities used in the operation of the Department. As it is a non-major fund, it is shown in the accompanying financial statements. Appropriations are received on a reimbursement basis as expenditures occur; therefore, only budgetary reversions are made when applicable.

All governmental funds are accounted for using the modified accrual basis of accounting. The funds' revenues are recognized in the period in which they become susceptible to accrual (i.e., when they are both measurable and available to pay liabilities in the current period). "Available" is defined as collectible within the current period or soon enough thereafter within 60 days after year-end to be used to pay liabilities of the current period. Intergovernmental revenues, including Federal allotments and grants, are recorded in accordance with their legal or contractual requirements if collected in the current period or if collectibility is assured subsequent to year-

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

end. Grant revenues are collected in advance of the period intended to finance expenditures. If the eligibility requirements are not met, they are recorded as deferred revenues. Interest income is recorded when earned. Bond proceeds are recognized at the time the bonds are sold. Principal and interest payments are recorded in the debt service fund when these disbursements are made or when resources have been provided for debt service payments due early in a subsequent fiscal year. All other revenues are not susceptible to accrual.

**◆ Budgets and Budgetary Accounting**

The state legislature makes annual appropriations to the Department. Legal compliance is monitored through the establishment of an annual budget for the Special Revenue Fund type and multi-year budgets for Severance Tax multi-year capital projects, General Fund multi-year capital projects, and the capital projects funds using the modified accrual budget basis of accounting and a financial control system which permits a budget-to-actual expenditure comparison. The Debt Service Fund expenditures for principal and interest and the State Infrastructure Bank expenditures for loans funded are included in the Road Betterments Division budget of the State Road Fund.

Expenditures may not legally exceed appropriations for each division's budget at the expenditure classification level.

Amendments to the budget require approval by the budget division of the Department of Finance and Administration (DFA). Unencumbered annual budget appropriations lapse at year-end. Appropriations of the proceeds of severance tax bonds are subject to the limitations contained in the law that authorized the appropriation.

**◆ Interfund and Interagency Transactions**

Transfers which, because of budgetary or legal restrictions, must be expended by funds other than the fund initially receiving the revenue, are recorded as operating transfers in (out) under the other financing sources (uses) category (Notes 10 and 14) in the governmental fund financial statements.



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

◆ ***Restricted Cash and Cash Equivalents***

The funds deposited in the debt service funds are restricted to pay future principal and interest payments due under the \$105,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (CHAT Bonds); the \$100,000,000 Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (WIPP Bonds); the \$100,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (CHAT Bonds); the \$201,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (CHAT Bonds); the \$198,800,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (CHAT Bonds); the \$95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (CHAT Bonds); the \$79,920,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002B (WIPP Bonds); the \$67,750,000 Highway Infrastructure Fund Revenue Highway Bonds, Series 2002C (HIF Bonds); and the \$16,000,000 Senior Subordinate Tax Revenue Highway Bonds, Series 2002D (CHAT Bonds). The remaining balance of the proceeds from the sale of the debentures, bonds and the NMFA loan are also classified as restricted cash because of the limited use of these funds. Proceeds of the various bond issues are also invested through the State Treasurer's Office in securities repurchase agreements with financial institutions and a money market mutual fund that invests in U.S. Treasury securities. Cash received from the Department of Energy (for the WIPP Project fund) in advance of incurring the eligible expenditures is also reflected as restricted cash because the cash can only be used on specified road projects. Cash held in the State Infrastructure Bank is restricted for use in funding loans (Note 2).

◆ ***Taxes Receivable***

Taxes receivable represent the amounts due from the New Mexico Taxation and Revenue Department for the Department's June 30 fiscal year user and fuel taxes that are received by the Department after year-end. Accordingly, no allowance for uncollectible amounts is necessary.

◆ ***Accounts Receivable***

Accounts receivable consists of amounts due from various entities: individuals and other state and local agencies located within the State of New Mexico for the sale of maps, brochures and other materials; federal excise taxes; and for other services performed by the Department. The Department provides an allowance for uncollectible accounts. The allowance is based on estimated collectible balances using an analysis of an aging of outstanding accounts and historical collection experience. The Department does not require collateral on these accounts receivable (Note 3).

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Severance Tax Bonds Proceeds Receivable**

The State of New Mexico Legislature has authorized the State Board of Finance to issue and sell revenue bonds that are to be retired using future taxes levied against the extractive industries in the state. The proceeds from bonds sold are appropriated to the Department to be used for specific programs and are recorded as revenues by the Department. Expenditures incurred by the Department for such programs are reimbursable from the State Board of Finance. The severance tax bonds proceeds receivable represents the amounts due and available from the State Board of Finance as of year-end (Note 4).

**◆ Notes and Loans Receivable**

Notes receivable represent:

- Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds (90%) for the purchase of vehicles by various nonprofit van pooling organizations.
- The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- Notes issued to individuals displaced by purchases of right of way properties. The funds loaned to such individuals are provided in part by FHWA funds per FHWA guidelines.

Loans receivable represent:

- Loans to other governmental entities made by the State Infrastructure Bank. Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All loans are to governmental entities and secured by certain pledged revenues. The loans are being repaid in accordance with their loan agreements. Management's evaluation of the loan portfolio has determined that no allowance for uncollectible loans is required at June 30, 2006. There are no loans past due for more than 90 days as of the end of the fiscal year which require placement on non-accrual status (Note 5).

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Due From the U.S. Department of Transportation**

Due from the U.S. Department of Transportation represents amounts billed and unbilled in accordance with the various grant agreements. The “billed” portion represents contract expenditures incurred and billed by the Department. The “unbilled” portion represents expenditures included in accounts payable that will be billed when paid by the Department. The “excess project costs” represents costs actually incurred on a project in excess of approved amounts. The Department provides for an allowance for uncollectible accounts in excess of project costs classification. The allowance is based on an analysis of amounts that are reasonably assured of collection (Note 6).

**◆ Due From/To Other Funds**

Due from/to other funds represent amounts due from and to other funds within the Department (Note 7) and are included in the governmental fund financial statements. Inter-fund transactions are eliminated in the GAAP-basis governmental-wide financial statements.

**◆ Inventory**

Inventory is valued at cost using the first-in, first-out method. Special Revenue Fund inventory consists of materials used in the Department’s operations.

The inventory costs are recorded as expenditures when consumed rather than when purchased. Reported inventories are equally offset by the fund balance reserve, which indicates that it does not constitute “available spendable resources” (Note 8) even though they are a component of current assets.

**◆ Prepaid Expense - Warranty**

The warranty represents the no-fault portion of \$32,490,080 being amortized over 20 years that will meet performance criteria. The remaining \$13,148,286 of the warranty that represents the no-fault warranty that the structures will meet performance criteria is being amortized over 11 ½ years.

**◆ Property Held for Resale**

Property held for resale represents excess land acquired through condemnation and is recorded at its estimated fair value. The Department’s management estimated the fair value based upon recent sales of similar type assets.



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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ Capital Assets**

Capital assets, which include property, plant, equipment, software in the equipment category, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, streets, tunnels and similar infrastructure items), are reported in the governmental activities columns in the government-wide financial statements. The Department has no internally developed software that requires capitalization. As a result of House Bill 1074, effective date June 17, 2005, the State's capitalization policy threshold was changed from \$1,000 to \$5,000, requiring agencies to capitalize acquisitions greater than \$5,000. Assets purchased prior to June 17, 2005 were not removed and will continue to be depreciated. Purchased and constructed capital assets are valued at historical or estimated historical cost. The Department has not capitalized any construction period interest expense. Donated capital assets are recorded at their estimated fair value at the date of donation.

- The Department records as capital assets the specific roads, tunnels and other infrastructure it owns or over which it has primary responsibility for maintenance. According to GASB, if the Department has the primary responsibility for the asset's maintenance, then the capital asset would be recorded on its books.
- An estimated historical cost of the entire infrastructure on the Department's government-wide financial statements was determined as of June 2001. The Department calculated the replacement cost as of June 30, 2001 for its entire infrastructure and then deflated the cost by use of a construction price level index maintained by the Federal Highway Administration. Accumulated depreciation at June 30, 2001 was calculated based on the estimated historical cost of the infrastructure, estimated use of the assets and using a 25 to 30-year life of the infrastructure. Current year activity is shown in Note 9 to the financial statements.
- The Department follows the depreciation method to record infrastructure assets. This method requires the Department to allocate the cost of infrastructure assets over their useful lives as depreciation expense. Another allowable methodology is to use the modified approach to record infrastructure. Under this process, the Department does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. If this method was used, it would require the Department to: 1) commit to maintaining and preserving the assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. The Department elected to use the depreciation method as it determined it could not meet



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

**◆ Capital Assets – continued**

- the condition to maintain the infrastructure at a predetermined condition level due to an anticipated lack of future funding for maintenance.
- The Department records its other capital assets (buildings and machinery and equipment) at historical cost and depreciates the assets over their estimated useful lives. Capital assets acquired in the current year in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Department are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and right-of-way land. Generally, estimated useful lives are as follows:

Machinery and Equipment	7 - 14 years
Buildings and Other Improvements	40 years
Infrastructure	25 - 30 years

**◆ Deferred Revenue**

Deferred revenue occurs when the Department receives funds before the corresponding expense or expenditure has been incurred, or all of the eligibility requirements have been met. The Department has received funds in advance of work done from the Department of Energy (DOE) for road projects and other costs relating to the Waste Isolation Pilot Plant (WIPP). The Department has received pass-through federal funds in advance of work done from the New Mexico Department of Human Services for the temporary assistance of needy families. Revenue is recognized when eligible expenditures are incurred for these projects and programs and all eligibility requirements are met.

**◆ Compensated Absences**

The Department accounts for the accumulated vacation and sick leave on the accrual basis in accordance with GASB 16. Accrued vacation up to 240 hours is recorded in the Statement of Net Assets at 100% of the employee's hourly wage. In addition, accrued sick leave over 600 up to 720 hours less the amount classified as current is recorded in the Statement of Net Assets at 50% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA). Employees exempt from coverage by FLSA earn one hour of compensatory time for each overtime hour. The accrual for

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued****◆ *Compensated Absences - continued***

compensated absences is calculated at pay rates in effect at June 30, 2006, and include direct and incremental salary related payments, such as the employees' share of social security taxes.

**◆ *Long-Term Obligations***

Premiums, Discounts and Issuance Costs - In the government-wide financial statements, long-term debt and other long-term obligations are presented in the columns for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized straight line over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and also amortized straight line over the term of the related debt.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other expenditures.

Arbitrage Rebate Liability - Any arbitrage rebate is recorded as a liability when it is determined to be owed to the Internal Revenue Service.

**◆ *Net Assets***

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

Investments in Capital Assets - is intended to reflect the portion of net assets which is associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Assets - are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory or granting agency) limitation on their use. When there is an option, the Department spends restricted resources first.

Unrestricted Assets - are all other net assets that do not meet the definition of "restricted assets" or "investments in capital assets".

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

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end with the exception of the Capital Projects Fund. Encumbrances outstanding in this fund at year-end are reported as reservations of fund balance on the balance sheets (in the fund financial statement) and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

It is necessary to include the budgetary basis consistent with the Department's legally adopted budget as presented in the required supplementary information. Unused and excess encumbrances are adjusted in the year it is determined the funds will not be spent.

**◆ Reservations**

Reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved for Encumbrances - This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Department but not completed as of the close of the fiscal year.

Reserved for Inventory - This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department expects to use the resources within the next budgetary period.

**◆ Designated Fund Balance**

The Department established a designation for projects to be funded by the Capital Projects Fund that have not been started in the governmental fund financial statements.

**◆ Use of Estimates**

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



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

◆ **Eliminations**

Total columns in the governmental fund financial statements are captioned “Total (Governmental Funds)” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operation or changes in financial position of the Department as a whole in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation in the governmental fund financial statements. Due from/to other funds and interfund transfers have been eliminated in the government-wide financial statements.

**2. CASH AND CASH EQUIVALENTS**

Cash funds, other than petty cash, are deposited by the Department into its accounts with the State Treasurer, which are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Money of the Department may be deposited with the State Treasurer for a short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico, or any political subdivision of the State and other investments allowed by state law. Petty cash funds are deposited with various financial institutions and are fully insured. Some of the cash held by the trustee for the NMFA loan proceeds is also invested in a money market mutual fund that invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2006, are as follows:

	<u>CAS Account Number</u>		<u>Amount</u>
Unrestricted:			
Road Fund - General	201	\$	66,393,157
Local Government Fund	203		20,723,524
Aviation Fund	205		625,844
Motorcycle Training Fund	206		78,661
DWI Prevention Fund	207		573,762
Traffic Safety	208		3,284,326
Driver Improvement Program Fund	N/A		1,475
Bond Project Fund			<u>90</u>
		\$	<u>91,680,839</u>

2. *CASH AND CASH EQUIVALENTS - continued*

	<u>CAS Account Number</u>	<u>Amount</u>
Restricted:		
Road Fund (relates to WIPP bond projects and various other road projects)	431	36,299,193
Bond Project Fund (1993 Bonds)	394	1,460,095
Bond Project Fund (1999 CHAT Bonds)	430	219,157
Bond Project Fund (2000 CHAT Bonds)	345	4,527
Bond Project Fund (2001 CHAT Bonds)	006	9,343,403
Bond Project Fund (2002A CHAT Bonds)	368	139,960
Bond Project Fund (2002C HIF Bonds)	361	1,164,997
Bond Project Fund (2002D CHAT Bonds)	115	670,506
Bond Project Fund (2004A GRIP Bonds)	N/A	415,396,116
Bond Project Fund (2004 B/C GRIP Bonds)	N/A	43,782,628
Debt Service Fund (1998 CHAT Bonds)	548	143,308
Debt Service Fund (1999 CHAT Bonds)	434	401,572
Debt Service Fund (2000 CHAT Bonds)	432	594,534
Debt Service Fund (2001A CHAT Bonds)	007	796,206
Debt Service Fund (2002A CHAT Bonds)	547	333,987
Debt Service Fund (2002B WIPP Bonds)	750	359,201
Debt Service Fund (2002C HIF Bonds)	363	81,027
Debt Service Fund (2002D CHAT Bonds)	187	15,237
Debt Service Fund (WIPP Bonds)	N/A	82,612
State Infrastructure Bank	893	<u>10,765,589</u>
		\$ <u>522,053,855</u>

State law requires that repurchase agreements be secured by collateral with a market value greater than 102% of the value of the agreement. The securities are held by a third party in the Department's name. The fair value of the repurchase agreement approximates the cost at June 30, 2006.

GASB 31, which requires the Department to record investments with a maturity greater than one year at the time of their purchase at fair value, does not have any effect on the Department.

**3. ACCOUNTS RECEIVABLE**

The aging of accounts receivable as of June 30, 2006, is as follows:

Number of Days Outstanding

0 - 30	\$ 1,845,170
31 - 60	4,926
61 - 120	496
Beyond 120	<u>2,237,000</u>
	4,087,592
Allowance for uncollectible accounts	<u>(1,822,250)</u>
	\$ <u>2,265,342</u>

The allowance for uncollectible accounts has been established from experience based on the records of the respective activities.

**4. SEVERANCE TAX BOND PROCEEDS RECEIVABLE**

Severance tax bonds proceeds receivable as of June 30, 2006, appropriated to the Department, were held by the State Board of Finance to reimburse expenditures incurred by the Department. The activity of this account is as follows:

Balance, beginning of year	\$ 44,379,303
Sale and reauthorization of severance tax bonds	19,530,882
Funding from the State Board of Finance	(7,615,903)
Reversion to the State Board of Finance	<u>(818,437)</u>
Balance, end of year	\$ <u>55,475,345</u>

The funding for the year ended June 30, 2006 was received under the Laws of 1998, Chapter 118; Laws of 1998, Chapter 7; Laws of 1999, Chapter 2; Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110, for projects completed.



**5. NOTES AND LOANS RECEIVABLE**

Notes receivable as of June 30, 2006 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.	\$ <u>27,672</u>
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Loans receivable funded by the SIB consist of the following:

City of Albuquerque, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	\$ 641,087
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County of Bernalillo, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	<u>7,401,160</u>
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	\$ <u>8,042,247</u>
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**6. DUE FROM U.S. DEPARTMENT OF TRANSPORTATION**

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2006:

Agency

Federal Highway Administration	\$ 23,183,713
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Other USDOT Agencies	<u>1,916,830</u>
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Total USDOT	\$ <u>25,100,543</u>
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Subsequent to June 30, 2006, the Federal Highway Administration unbilled portion was billed and the amounts were collected by the Department. Management felt that the entire balance outstanding at year end was collectable and, therefore, no allowance was established at June 30, 2006.



NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued



**7. DUE FROM AND DUE TO OTHER FUNDS**

The following are short-term amounts (due within one year) owed between funds and are classified as Due From/To Other Funds:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Special Revenue Funds:		
State Road Fund	\$ 107,491,437	(100,501,750)
Local Government Road Fund	-	(1,826,039)
Federal Planning and Development Fund	-	(726,308)
State Aviation Fund	1,340,226	(174,177)
Federal Traffic Safety Fund	3,423,860	(4,149,734)
Driver Improvement Program Fund	289,504	-
DWI Prevention and Education Fund	-	(31,533)
Capital Improvements Projects	13,835,328	-
Bond Project Fund (1993 Bonds)	-	(37,804)
WIPP Debt Service Funds	13,829	-
Bond Project Fund (1998 & 1999 CHAT)	3,088,612	(1,224,580)
Bond Project Fund (2000 CHAT)	1,788,987	(3,650,144)
Bond Project Fund (2001 CHAT)	-	(899,327)
Bond Project Fund (2002A CHAT)	-	(1,988,154)
Bond Project Fund (2004A GRIP)	<u>-</u>	<u>(16,062,233)</u>
 Total Special Revenue Funds	 \$ <u>131,271,783</u>	 <u>(131,271,783)</u>

Due from/to other fund amounts occur for the following reasons:

- The State Road Fund pays expenditures on behalf of other funds.
- Grant and other funds are recorded in the State Road Fund and then transferred to the appropriate funds.

**8. INVENTORY**

Inventory as of June 30, 2006 consists of the following:

Highway maintenance materials stockpiled	\$ 7,610,494
Repair parts and expendable supplies	4,176,347
Fuel, oil and lubricants	<u>727,456</u>
	 \$ <u>12,514,297</u>

**9. CAPITAL ASSETS**

A summary of changes in capital assets follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2006</u>
Non-depreciable assets:				
Land	\$ 5,064,678	158,415	(160,017)	5,063,076
Right of way	360,549,775	11,259,965	-	371,809,740
Depreciable assets:				
Infrastructure	15,069,367,358	349,159,210	(308,471,791)	15,110,054,777
Equipment and furniture	50,050,041	2,654,786	(1,721,924)	50,982,903
Vehicles	159,575,253	11,828,196	(5,687,105)	165,716,344
Buildings	<u>36,706,531</u>	<u>1,009,125</u>	<u>(126,165)</u>	<u>37,589,491</u>
Total	15,681,313,636	376,069,697	(316,167,002)	15,741,216,331
Less accumulated depreciation:				
Infrastructure	(8,200,214,936)	(499,028,410)	308,471,791	(8,390,771,555)
Equipment and furniture	(33,879,955)	(3,075,763)	1,615,515	(35,340,203)
Vehicles	(105,612,347)	(11,587,356)	5,629,706	(111,569,997)
Buildings	<u>(21,622,373)</u>	<u>(1,146,763)</u>	<u>16,928</u>	<u>(22,752,208)</u>
Total accumulated depreciation	<u>(8,361,329,611)</u>	<u>(514,838,292)</u>	<u>315,733,940</u>	<u>(8,560,433,963)</u>
Net total	\$ <u>7,319,984,025</u>	<u>(138,768,595)</u>	<u>(433,062)</u>	<u>7,180,782,368</u>

Current year depreciation expense was \$514,838,292. There were no software costs to capitalize as of year-end.



**10. OPERATING TRANSFERS**

The following is a summary of interfund transfers (in)/out in the governmental fund financial statements for the year ended June 30, 2006:

	State Road Fund	Major Debt Service Funds	Special Revenue Funds	Non-Major
(1)	\$ (170,258,516)	104,068,876	-	66,189,640
(2)	<u>2,648,475</u>	<u>-</u>	<u>(2,776,412)</u>	<u>127,937</u>
	\$ <u>(167,610,041)</u>	<u>104,068,876</u>	<u>(2,776,412)</u>	<u>66,317,577</u>

- (1) The transfer from the State Road fund to the following debt service funds for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) The transfer of federal revenue received in the State Road Fund for Federal Planning and Development.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued



**11. LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

Governmental Activities	Balance at June 30, 2005	Increase	Decrease	Balance at June 30, 2006	Amounts Due Within One Year
1998 WIPP Bonds	\$ 37,220,000	-	(2,785,000)	34,435,000	-
1998 CHAT Bonds	21,960,000	-	-	21,960,000	-
1999 CHAT Bonds	38,585,000	-	(8,920,000)	29,665,000	9,385,000
2000 CHAT Bonds	65,515,000	-	(11,700,000)	53,815,000	12,340,000
2001 CHAT Bonds	138,690,000	-	(14,875,000)	123,815,000	16,730,000
2002A CHAT Bonds	51,880,000	-	(7,180,000)	44,700,000	7,540,000
2002B WIPP Bonds	33,815,000	-	(7,730,000)	26,085,000	8,115,000
2002C HIF Bonds	32,945,000	-	-	32,945,000	-
2002D CHAT Bonds	5,770,000	-	-	5,770,000	1,200,000
2004A GRIP Bonds	700,000,000	-	-	700,000,000	-
2004B GRIP Bonds	210,255,000	-	(27,940,000)	182,315,000	19,985,000
2004C GRIP Bonds	200,000,000	-	-	200,000,000	-
Deferred amount on refunding	(32,591,752)	-	1,715,355	(30,876,397)	-
Compensated absences payable	<u>5,754,049</u>	<u>5,079,296</u>	<u>(5,001,510)</u>	<u>5,831,835</u>	<u>5,100,000</u>
Total obligations	1,509,797,297	<u>5,079,296</u>	<u>(84,416,155)</u>	1,430,460,438	<u>80,395,000</u>
Less current portion	<u>84,870,132</u>			<u>80,395,000</u>	
Net long-term obligations	\$ <u>1,424,927,165</u>			<u>1,350,065,438</u>	

The State Road Fund is used to liquidate other long-term liabilities, such as compensated absences and capital leases. The Department is authorized to issue bonds from time to time, payable from the proceeds of the collection of gasoline excise taxes, motor vehicle registration fees, and other fees that are required by law to be paid into the State Road Fund and not otherwise pledged solely to the payment of outstanding bonds and debentures. The total aggregate outstanding bonds issued are in accordance with the authorizing legislation for the bonds and other debt with the approval of the State Board of Finance, which includes Section 67-3-59.1 of the New Mexico Statutes Annotated (NMSA) (1978), as amended; and the Supplemental Public Securities Act constituting Sections 6-15-8 through 6-14-11 of the NMSA (1978), as amended.



### 11. LONG-TERM OBLIGATIONS - continued

The Department issued \$105,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1998A and \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B in October 1998. The net proceeds to the Department were \$108,979,050 for the Series 1998A Bonds and \$103,753,450 for the Series 1998B Bonds. The cost of issuance for the Series 1998A and Series 1998B Bonds was \$773,588 and \$767,380, respectively. The Bonds are special limited obligations of the Department, payable solely by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes and vehicle transaction taxes and fees that are required to be paid into the State Road Fund. The Series 1998A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature. The Series 1998B Bonds (1998 WIPP Bonds) were issued by the Department for roads relating to the Waste Isolation Pilot Project (WIPP) in the State of New Mexico.

Principal of the Series 1998A Bonds (CHAT) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT), including interest payments of \$3,953,169 based on interest rates that range from 4.5% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998A CHAT:			
2007	\$ -	1,125,450	1,125,450
2008	-	1,125,450	1,125,450
2009	10,705,000	1,125,450	11,830,450
2010	<u>11,255,000</u>	<u>576,819</u>	<u>11,831,819</u>
Total	\$ <u>21,960,000</u>	<u>3,953,169</u>	<u>25,913,169</u>

**11. LONG-TERM OBLIGATIONS - continued**

Principal of the Series 1998 Bonds (WIPP) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2011.

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds), including interest payments of \$7,116,238 based on interest rates that range from 3.8% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998 WIPP:			
2007	\$ -	1,751,613	1,715,613
2008	-	1,751,612	1,715,612
2009	10,545,000	1,751,613	12,296,613
2010	11,460,000	1,224,362	12,684,362
2011	<u>12,430,000</u>	<u>637,038</u>	<u>13,067,038</u>
Total	\$ <u>34,435,000</u>	<u>7,116,238</u>	<u>41,551,238</u>

On October 2, 1998, the Department borrowed \$100,230,000 from the New Mexico Finance Authority (NMFA). The NMFA had issued \$100,230,000 of NMFA Federal Highway Grant Anticipation Revenue Bonds to fund the loan. The Department's obligation under the loan agreement is to repay the loan from certain federal funds payable to the Department from the Federal Highway Administration. If insufficient federal revenues are received, the Department will use good faith efforts to seek additional revenues that are otherwise not obligated and are legally available to repay the loan. After all loan payments and other payments due on any future obligations secured by these federal funds are made, any remaining federal funds received will be deposited into the State Road Fund.

Eligible federal funds that can be used for debt repayment are not available for approximately two years after the date of the loan. Accordingly, \$8,468,451 of the loan proceeds were recorded to the debt service fund to pay future debt service.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1. Total issue costs were \$2,144,423 net of \$1,656,807 of the premium received from the sale of the NMFA bonds.



**11. LONG-TERM OBLIGATIONS - continued**

Principal of the loan was paid in May 2004 with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

The Department issued \$100,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1999 in November 1999. The gross proceeds to the Department were \$101,161,999, and the cost of issuance including underwriting fees was approximately \$791,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 1999 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 4.75% to 5.75% per annum, is payable semi-annually on June 15 and December 15 through the year 2009.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$3,362,406, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1999 CHAT:			
2007	\$ 9,385,000	1,622,406	11,007,406
2008	9,870,000	1,141,425	11,011,425
2009	<u>10,410,000</u>	<u>598,575</u>	<u>11,008,575</u>
Total	\$ <u>29,665,000</u>	<u>3,362,406</u>	<u>33,027,406</u>

The Department issued \$201,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A in May 2000. The gross proceeds to the Department were \$206,023,307, and the cost of issuance including underwriting fees was approximately \$1,392,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 2000 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

**11. LONG-TERM OBLIGATIONS - continued**

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.5% to 6.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$11,011,500, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2000A CHAT:			
2007	\$ 12,340,000	3,781,875	16,121,875
2008	13,060,000	3,138,375	16,198,375
2009	13,810,000	2,420,650	16,230,650
2010	<u>14,605,000</u>	<u>1,670,600</u>	<u>16,275,600</u>
Total	\$ <u>53,815,000</u>	<u>11,011,500</u>	<u>64,826,500</u>

The Department issued \$198,800,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A, in November 2001. The gross proceeds to the Department were \$209,050,033, including \$10,250,033 of an original issue premium. The cost of issuance including underwriting fees was approximately \$1,343,586. The bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2001A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15. Interest, with rates ranging from 4.3% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2013.



**11. LONG-TERM OBLIGATIONS - continued**

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$27,321,613 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2001A CHAT:			
2007	\$ 16,730,000	6,344,648	23,074,648
2008	17,685,000	5,508,147	23,193,147
2009	14,630,000	4,623,898	19,253,898
2010	9,545,000	3,892,397	13,437,397
2011	20,645,000	3,415,148	24,060,148
2012 - 2013	<u>44,580,000</u>	<u>3,537,375</u>	<u>48,117,375</u>
Total	\$ <u>123,815,000</u>	<u>27,321,613</u>	<u>151,136,613</u>

On March 14, 2001, the Department borrowed \$18,535,000 from the New Mexico Finance Authority (NMFA). The NMFA had issued \$18,535,000 of NMFA Federal Highway Grant Anticipation Revenue Bonds to fund the loan. The Department's obligation under the loan agreement is to repay the loan from certain federal funds payable to the Department from the Federal Highway Administration. If insufficient federal revenues are received, the Department will use good faith efforts to seek additional revenues that are otherwise not obligated and are legally available to repay the loan. After all loan payments and other payments due on any future obligations secured by these federal funds are made, any remaining federal funds received will be deposited into the State Road Fund.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1. Total issue costs were \$467,998 and there was a premium of \$704,443 from the sale of the NMFA bonds.

Principal of the loan was paid in May 2004 with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

**11. LONG-TERM OBLIGATIONS - continued**

The Department issued \$95,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 2002A in January 2002. The gross proceeds including accrued interest to the Department were \$98,361,534, including \$3,913,043 of an original premium. The cost of issuance including underwriting fees was \$592,819. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees and, to the extent authorized, to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid in the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.0% to 5.5% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$10,969,950, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002A CHAT:			
2007	\$ 7,540,000	2,378,100	9,918,100
2008	7,935,000	1,982,250	9,917,250
2009	-	1,585,500	1,585,500
2010	8,750,000	1,585,500	10,335,500
2011	-	1,126,125	1,126,125
2012 - 2014	<u>20,475,000</u>	<u>2,312,475</u>	<u>22,787,475</u>
Total	\$ <u>44,700,000</u>	<u>10,969,950</u>	<u>55,669,950</u>



**11. LONG-TERM OBLIGATIONS - continued**

The Department issued \$79,920,000 of the New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds, Series 2002B, in January 2002. The gross proceeds including accrued interest to the Department were \$82,007,147 including \$2,670,686 of an original issue premium. The cost of issuance including underwriter fees was \$614,561. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002B Bonds (WIPP Bonds) were issued to provide funds to refund the 1996 WIPP Bonds on the date of delivery of the Bonds, and to pay all costs incident thereto and to the issuance of the Bonds, including, without limitation, costs of issuance.

Principal of the bonds is payable on June 15. Interest at a rate of 5% per annum is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$3,147,250, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002B WIPP:			
2007	\$ 8,115,000	1,304,250	9,419,250
2008	8,525,000	898,500	9,423,500
2009	-	472,250	472,250
2010	<u>9,445,000</u>	<u>472,250</u>	<u>9,917,250</u>
Total	\$ <u>26,085,000</u>	<u>3,147,250</u>	<u>29,232,250</u>



### 11. LONG-TERM OBLIGATIONS - continued

The Department issued \$67,750,000 of the New Mexico State Highway Infrastructure Fund Revenue Highway Bonds (additionally secured by a Senior Subordinate Lien on Certain State Road Fund Revenues), Series 2002C, in May 2002. The gross proceeds including accrued interest to the Department were \$69,809,036 including \$2,499,411 of an original issue premium. The cost of issuance including underwriter fees was \$440,375. The bonds are special limited obligations of the State Highway Commission, payable from and secured by a senior pledge of proceeds of the collection of leased vehicle gross receipts tax revenues and tire recycling fees, in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on such amounts in the Highway Infrastructure Fund. The Bonds are additionally payable from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002C Bonds (HIF Bonds) were issued to funds projects identified by the Department and the Legislature.

Principal of the Bonds is payable on June 15. Interest, with rates ranging from 3.25% to 5.375% per annum, is payable semi-annually on June 15 and December 15 through the year 2017.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$14,156,816, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002C HIF:			
2007	\$ -	1,709,524	1,709,524
2008	-	1,709,524	1,709,524
2009	3,000,000	1,709,524	4,709,524
2010	2,000,000	1,559,524	3,559,524
2011	-	1,459,524	1,459,524
2012 - 2016	21,770,000	5,684,634	27,454,634
2017	<u>6,175,000</u>	<u>324,562</u>	<u>6,499,562</u>
Total	\$ <u>32,945,000</u>	<u>14,156,816</u>	<u>47,101,816</u>



**11. LONG-TERM OBLIGATIONS - continued**

The Department issued \$16,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002D, in December 2002. The gross proceeds to the Department were \$16,572,740 including \$699,498 of an original issue premium. The cost of issuance including underwriter fees was \$126,758. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002D Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable as follows on June 15. Interest, with rates ranging from 3.9% to 5.00% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds including interest payments of \$1,285,175 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002D CHAT:			
2007	\$ 1,200,000	254,825	1,454,825
2008	-	194,825	194,825
2009	-	194,825	194,825
2010	1,360,000	194,825	1,554,825
2011	-	126,825	126,825
2012 - 2014	<u>3,210,000</u>	<u>319,050</u>	<u>3,529,050</u>
	\$ <u>5,770,000</u>	<u>1,285,175</u>	<u>7,055,175</u>

**11. LONG-TERM OBLIGATIONS - continued**

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

The Department is responsible for the NMFA issuance costs and must annually pay the NMFA 25 basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 3.8% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2024.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$470,711,167, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004A GRIP:			
2007	\$ -	36,216,759	36,216,759
2008	-	36,216,759	36,216,759
2009	-	36,216,759	36,216,759
2010	-	36,216,759	36,216,759
2011	-	36,216,759	36,216,759
2012 - 2016	145,710,000	175,972,147	321,682,147
2017 - 2021	413,155,000	103,548,387	516,703,387
2022 - 2024	141,135,000	10,106,838	151,241,838
	\$ <u>700,000,000</u>	<u>470,711,167</u>	<u>1,170,711,167</u>

**11. LONG-TERM OBLIGATIONS - continued**

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

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

Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 2.0% to 5.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$46,700,365, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004B CRIP:			
2007	\$ 19,985,000	8,804,615	28,789,615
2008	13,170,000	7,938,265	21,108,265
2009	10,735,000	7,347,765	18,082,765
2010	9,230,000	6,879,385	16,109,385
2011	36,275,000	6,421,085	42,696,085
2012 - 2014	<u>92,920,000</u>	<u>9,309,250</u>	<u>102,229,250</u>
Total	\$ <u>182,315,000</u>	<u>46,700,365</u>	<u>229,015,365</u>



## 11. LONG-TERM OBLIGATIONS - continued

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

### Refunding

NMFA, on behalf of the Department, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the Department, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of \$408,855,872 plus an additional \$7,285,997 were used to purchase U.S. Governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. The bonds outstanding of \$363,490,000 were considered defeased as of June 30, 2006.

The deferred amount on the refunding of \$30,876,397 recorded as a reduction of the Department's long-term obligation is the difference between the reacquisition price (funds required to refund the old debt including call provisions) and the net carrying amount of the old debt including unamortized old bond issuance costs. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized as additional interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The Department is responsible for the issuance costs and must annually pay the 25 basis points on the outstanding principal balance, which will be \$500,000 a year through 2022 and \$339,063 during 2023. Principal of the bonds is payable on June 15, with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is based on interest rate swap agreements as disclosed below.



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**11. LONG-TERM OBLIGATIONS - continued****Interest Rate Swaps****State Transportation Revenue Bonds, Series 2006**

*Objective of the Swaps.* In April of 2004, the New Mexico Finance Authority (the "Authority") entered into two (2) forward starting swaps with two (2) counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a \$1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between \$175 million and \$200 million in cash which will act as a natural hedge if the swap is knocked-out.

*Terms.* The swaps were entered into with J.P Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072% based on an amortizing national schedule with a combined \$220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. The option premium is equal to 0.34% per annum, resulting in a net fixed rate of 4.732%. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

*Fair Value.* As of June 30, 2006, the swaps had a negative fair value of \$6,818,902 without the option. The options had a negative value of \$12,823,336 in isolation of the swaps, thus the swaps including the options had a total negative value of \$19,642,238. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**11. LONG-TERM OBLIGATIONS - continued****State Transportation Revenue Bonds, Series 2006 - continued**

*Credit Risk.* As of June 30, 2006 the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

*Termination Risk.* The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. The swap also includes an additional termination event related to non-issuance of the associated bonds. That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial cash reserves which will mitigate this risk by generating variable rate income. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

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

*Objective of the Swap.* In April of 2004, the Authority entered into three (3) swaps with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of \$11,524,206.49 or 3.02% of the refunded bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate bonds at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swap was to effectively change the Authority's interest rate on the bonds to a fixed rate.

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**11. LONG-TERM OBLIGATIONS - continued****\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued**

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

*Fair Value.* As of June 30, 2006, the Lehman swap and Goldman swap each had a fair value of \$62,922, while the RBC swap had a fair value of \$125,844. The total fair value on all the swaps was \$251,688. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

*Credit Risk.* As of June 30, 2006 the Authority is exposed to credit risk in an amount equal to the positive fair value for each of the swaps. To mitigate credit risk, the counterparties are required to post collateral based upon the agreed upon collateral threshold levels per the Credit Support Annex (CSA) which are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

**11. LONG-TERM OBLIGATIONS - continued****\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued**

*Basis Risk.* As of June 15, 2006, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The Authority is also exposed to tax risk, a form of basis risk, where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The effect of the difference in basis is indicated by the difference between the intended synthetic rate (3.934%) and the synthetic rate as of June 30, 2006 (4.197%). The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2006, the rate on the bonds was 3.89%, whereas 68% of one month LIBOR was 3.627%.

*Termination Risk.* The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

*Swap Payments and Associated Debt:* As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
June 30				
2007	\$ -	7,780,000	614,000	8,394,000
2008	-	7,780,000	614,000	8,394,000
2009	-	7,780,000	614,000	8,394,000
2010	-	7,780,000	614,000	8,394,000
2011	-	7,780,000	614,000	8,394,000
2012 - 2016	-	38,900,000	3,070,000	41,970,000
2017 - 2021	-	38,900,000	3,070,000	41,970,000
2022 - 2024	200,000,000	20,511,645	1,618,785	222,130,430
	\$ 200,000,000	137,211,645	10,828,785	348,040,430

**11. LONG-TERM OBLIGATIONS - continued****Capital Leases**

The Department has in the past entered into several lease agreements as lessee for financing the acquisition of computer equipment. During 2005, the Department took advantage of the lease buy-out clauses in the lease agreements. As a result, the Department has eliminated all capital leases as of June 30, 2005. These lease agreements qualified as capital leases for accounting purposes and, therefore, had been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases had interest rates that range from 10% to 19%. A total of \$1,023,499 was paid during the 2006 fiscal year for capital lease obligations, and was recorded as debt service expense in the State Road Fund. No computer equipment was acquired through capital leases during the 2006 fiscal year.

There are no future minimum lease obligations to report as of June 30, 2006.

Total future principal and interest obligation repayments are as follows:

<u>Year Ended June 30,</u>		<u>Bonds and Loans</u>
2007	\$	148,457,065
2008		139,718,132
2009		139,749,809
2010		139,790,421
2011		126,620,504
2012 - 2016		565,139,931
2017 - 2021		562,542,949
2022 - 2024		<u>372,313,327</u>
<b>Total</b>	<b>\$</b>	<b><u>2,194,332,138</u></b>

An obligation amounting to \$5,831,835 at June 30, 2006, has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

**12. RETIREMENT AND HEALTH PLANS (STATE PERA)****◆ PERA Plan Description**

Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees' Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan.

The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

**◆ Funding Policy**

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature.

The Department's contributions to PERA for the years ending June 30, 2006, 2005 and 2004 were \$15,199,631, \$18,165,681, and \$12,192,028, respectively, equal to the amount of the required contribution for each year.

**13. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS**

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have been retired from certain public service in New Mexico. The New Mexico Retiree Health Care Department (NMRHCA) is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance consisting of a plan, or optional plans of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirements Act, the Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

**13. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS - continued**

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf; unless that person retires before the employer's NMRHCA effective date, in which event the time period for required employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement, or (2) retirees defined by the Act who retired prior to July 1, 1990, and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional \$5 if eligible participant retired prior to the employer's NMRHCA effective date, or is a former legislator, and made no contributions to the plan. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including terminations of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post-employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, New Mexico 87107.

For the fiscal year ended June 30, 2006, the Department remitted \$1,146,926 in employer contributions and \$573,463 in employee contributions to the Retiree Health Care Authority.

**14. TRANSFERS TO/FROM OTHER STATE AGENCIES AND LOCAL GOVERNMENTS**

The following is a summary of interagency cash transfers as a result of the 2004 General Appropriations Act for an employee assistance assessment to the General Services Department, for collective bargaining to the Department of Finance and Administration, and for an office lease to the Taxation and Revenue Department. The transfer to Department of Public Safety is a result of an appropriation for the motor transportation division from the State Road Fund.



**14. TRANSFERS TO/FROM OTHER STATE AGENCIES AND LOCAL GOVERNMENTS - continued**

	<u>Agency Number</u>	<u>Operating Transfers Out</u>
<b>Transfers to Other Agencies:</b>		
Department of Public Safety	01-790	\$ <u>8,176,400</u>

**15. COOPERATIVE AND JOINT POWERS AGREEMENTS**

The State Legislature and the State Highway Commission have approved certain agreements between the Department and various counties, municipalities and other agencies to construct or improve public highways, school grounds, parking areas, and for the purpose of litter control. The Department's funding responsibility varies from zero to 100%. None of these cooperative and joint power agreements have created legally separate organizations that need to be included as component units or joint ventures in the Department's financial statements.

<b>JOINT POWER AGREEMENTS</b>			
<u>Contract Number</u>	<u>Contractor</u>	<u>Description</u>	<u>Expended 2006</u>
J00706	Department of Tourism	Implement a statewide public awareness litter campaign to educate and inform New Mexicans about litter.	-
J00707	Zuni Pueblo	A pedestrian travel demand study for Black Rock Community.	83,000
J00708	Navajo Nation	Road improvements and a maintenance yard at the Bread Springs Chapter of Navajo Nation in McKinley County.	100,000
J00709	Department of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program to maintain an inventory of cultural properties in the State of New Mexico.	25,000
J00710	Santa Ana Pueblo	Provide roadside drainage for the Pueblo/cn L3016.	200,000
J00711	Department of Cultural Affairs, Historic Preservation Division	Provide FY 2006 – 2010 Consultant Design Program for the review of cultural resource documents pertinent to the completion of proposed highway construction project in New Mexico.	50,000
J00713	Pueblo of Zuni	Install two traffic school flashing units on State Road 53 Priority (2) BIA Route 301 North Zuni High School.	21,306
J00714	Pueblo of Laguna	Provide for the design and improvement of the Exit 108 Interchange on Interstate Highway 40 and BIA Road L22 on the Pueblo of Laguna Indian Reservation. Escrow agreement between Pueblo of Laguna, NMDOT and Wells Fargo Bank is the escrow agent.	-



**16. RISK MANAGEMENT**

The Department is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the agency carries insurance (Workers' Compensation, Unemployment Compensation, Employee Liability and Transportation Property), with the State of New Mexico Risk Management Division (RMD) of the General Services Department. There are no pending or known threatened legal proceedings involving material matters to which the Department is party.

**17. FEDERAL HIGHWAY ADMINISTRATION (FHWA) AUTHORIZATIONS**

The FHWA annually allocates funds to the State of New Mexico, which are available for various federally-sponsored projects. The authorizations expire within two to five years from date of authorization.

In order to obtain funding commitments from FHWA for such allotments, projects must be submitted to and be approved by the FHWA. As of June 30, 2006, the amount of authorizations granted to the State of New Mexico that had not been converted to commitments because FHWA did not award sufficient obligation authority to the Department was \$73,000,000.

**18. LITIGATION**

The Department is subject to various legal proceedings, claims and liabilities, including right-of-way condemnation proceedings, contractor claims and employee claims, which arise in the ordinary course of the Department's operations. There are various contractor lawsuits and claims against the Department for various reasons. The Department contests these claims and if a likelihood of a loss is probable, the Department accrues the loss in the accompanying financial statements. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

**19. OPERATING LEASE COMMITMENT**

The Department leases certain equipment and premises under numerous operating leases. Leases are subject to future appropriation and as such are cancelable by the Department at the end of a fiscal year. Rental expense for the year ended June 30, 2006, was \$1,506,252.



**19. OPERATING LEASE COMMITMENT - continued**

The future minimum lease payments under operating leases as of June 30, 2006 are approximately as follows:

Years ending June 30:	<u>Lease Amounts</u>
2007	\$ 554,980
2008	441,660
2009	321,000
2010	-
2011	-
2012 and thereafter	-
	<u>\$ 1,317,640</u>

**20. COMMITMENTS AND CONTINGENCIES**

◆ **Arbitrage Rebate Obligation**

As of June 30, 2006, the Department has paid all arbitrage rebates due to the Internal Revenue Service (IRS) on the excess interest income earned on the 1999 CHAT and 2000 CHAT bond proceeds.

◆ **Grant Revenue**

The Department participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Department has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2006 may be impaired. In the opinion of the Department, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

◆ **Warranty Claim**

The Department has filed a notice of deficiency regarding New Mexico 44 (now U.S. 550) under the design and construction warranty provided by the contractor. The Department has not specified a dollar amount of the cost of the repairs or replacement attributable to its claim made under the warranty. Accordingly, no amount for the claim receivable is accrued for in the June 30, 2006 financial statements.

**21. UNRESERVED, UNDESIGNATED FUND BALANCE (DEFICIT)**

The unreserved, undesignated fund balance (deficit) is the component of fund balance that represents the portion of the encumbrances that have not been billed to the applicable funding source.

**22. PRIOR PERIOD ADJUSTMENT**

The following errors in the State Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$29,068,461 greater for this fund.

	<u>State Road Fund</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	\$ 158,666,205
<b>ADJUSTMENTS:</b>	
To correct invalid Due to Other Funds balance that should have been Due from Other Funds	12,657,888
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	24,803,601
To record tax revenue reimbursement to Taxation and Revenue for overpayment	<u>(2,064,084)</u>
<b>TOTAL ADJUSTMENTS</b>	35,397,405
<b>FUND BALANCE, BEGINNING OF YEAR, ADJUSTED</b>	\$ <u>194,063,610</u>

The following errors in the Local Government Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$1,720,524 greater for this fund.

	<u>Local Government Road Fund</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	\$ 17,680,376
<b>ADJUSTMENT:</b>	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	<u>1,720,253</u>
<b>FUND BALANCE, BEGINNING OF YEAR, ADJUSTED</b>	\$ <u>19,400,629</u>



**22. PRIOR PERIOD ADJUSTMENT - continued**

The following errors in the 2004A GRIP Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$6,328,944 lower for this fund.

	<u>2004A GRIP</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	\$ 619,332,742
<b>ADJUSTMENTS:</b>	
To post liability as of June 30, 2005	<u>(6,328,944)</u>
<b>TOTAL ADJUSTMENTS</b>	(6,328,944)
<b>FUND BALANCE, BEGINNING OF YEAR, ADJUSTED</b>	\$ <u>613,003,798</u>

The following errors in the non-major special revenue funds were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$418,094 greater for these funds.

	<u>Non-major Special Revenue Funds</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	\$ 65,028,409
<b>ADJUSTMENT:</b>	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	<u>418,094</u>
<b>FUND BALANCE, BEGINNING OF YEAR, ADJUSTED</b>	\$ <u>65,446,503</u>

**23. SUBSEQUENT EVENTS**

The Department issued \$450 million in new bonds for highway reconstruction and infrastructure improvement projects under Governor Richardson's Investment Partnership (GRIP). The 20-year bonds carry annual interest rates between 4.15 percent and 4.987 percent. The bonds sold at a premium of \$12.5 million.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued



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**24. BUDGET TO GAAP RECONCILIATION – STATE INFRASTRUCTURE BANK**

Budgetary basis revenues	\$	460,073
Adjustments and accruals:		
Interest receivable		75,801
Notes and loans receivable		<u>31,910</u>
GAAP basis revenues	\$	<u>567,784</u>

**SUPPLEMENTARY INFORMATION**

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet - By Fund Type -  
Non-major Governmental Funds

AS OF JUNE 30, 2006

	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Traffic Safety Fund (CAS Fund #208)	State Aviation Fund (CAS Fund #205)	Motorcycle Training Fund (CAS Fund #206)	Driver Improvement Program Fund	Special Revenue Funds DWI Prevention and Education Fund (CAS Fund #207)	Bond Project Funds (CAS Fund #394)	Bond Project Fund (WIPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)	Bond Project Fund (2000 CHAT)
<b>ASSETS:</b>									
Cash and cash equivalents:									
Unrestricted	\$ 3,284,326	625,844	78,661	1,475	573,762	1,460,095	-	219,157	4,527
Restricted	-	-	-	-	-	-	-	-	-
Receivables:									
Taxes receivable, net	298,179	333,236	9,874	23,163	23,088	-	-	-	-
Due from other funds	3,423,860	1,340,226	-	289,504	-	-	-	3,088,612	1,788,987
Receivable from other governments	1,157,159	-	-	-	-	-	-	-	-
Interest receivable	21,782	-	1,053	-	-	9,947	293	1,542	31
Other receivables	739	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 8,186,045</u>	<u>2,299,306</u>	<u>89,588</u>	<u>314,142</u>	<u>596,850</u>	<u>1,470,042</u>	<u>293</u>	<u>3,309,311</u>	<u>1,793,545</u>
<b>LIABILITIES AND FUND BALANCES:</b>									
<b>LIABILITIES:</b>									
Accounts payable	\$ 1,010,959	10,037	-	-	55,396	-	19,477	-	32,300
Due to other funds	4,149,734	174,177	-	-	31,533	37,804	-	1,224,580	3,650,144
Deferred revenue	48,873	-	-	-	-	-	-	-	-
Other accrued expenses	24,937	30,624	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>5,234,503</u>	<u>214,838</u>	<u>-</u>	<u>-</u>	<u>86,929</u>	<u>37,804</u>	<u>19,477</u>	<u>1,224,580</u>	<u>3,682,444</u>
<b>FUND BALANCES:</b>									
Unreserved, reported in non-major:									
Special revenue funds	2,951,542	2,084,468	89,588	314,142	509,921	1,432,238	(19,184)	2,084,731	(1,888,899)
Capital projects funds	-	-	-	-	-	-	-	-	-
Debt service funds	-	-	-	-	-	-	-	-	-
Permanent Endowment Fund	-	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>2,951,542</u>	<u>2,084,468</u>	<u>89,588</u>	<u>314,142</u>	<u>509,921</u>	<u>1,432,238</u>	<u>(19,184)</u>	<u>2,084,731</u>	<u>(1,888,899)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 8,186,045</u>	<u>2,299,306</u>	<u>89,588</u>	<u>314,142</u>	<u>596,850</u>	<u>1,470,042</u>	<u>293</u>	<u>3,309,311</u>	<u>1,793,545</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet - By Fund Type -  
Non-major Governmental Funds - continued

AS OF JUNE 30, 2006

	Special Revenue Funds					Capital Project Funds			
	Bond Project Fund (2001 CHAT)	Bond Project Fund (2002A CHAT)	Bond Project Fund (2002C HIF)	Bond Project Fund (2002D CHAT)	Bond Project Fund (2004 B/C GRP)	Federal Planning and Development Fund	Total Special Revenue Funds	Capital Project Improvements Fund	Total Capital Project Funds
<b>ASSETS:</b>									
Cash and cash equivalents:									
Unrestricted	\$ 9,343,403	139,960	1,164,997	670,506	43,782,628	-	61,349,341	-	-
Restricted	-	-	-	-	-	-	-	-	-
Receivables:									
Taxes receivable, net	-	-	-	-	-	-	687,540	-	-
Due from other funds	-	-	-	-	-	759,671	9,931,189	13,835,328	13,835,328
Receivable from other governments	66,890	985	9,199	32,111	106,100	-	1,916,830	-	-
Interest receivable	-	-	-	-	-	-	249,933	-	-
Other receivables	-	-	-	-	-	-	739	-	-
<b>TOTAL ASSETS</b>	\$ 9,410,293	140,945	1,174,196	702,617	43,888,728	759,671	74,135,572	13,835,328	13,835,328
<b>LIABILITIES AND FUND BALANCES:</b>									
<b>LIABILITIES:</b>									
Accounts payable	\$ 294,396	3,086	50,533	944,095	-	31,326	2,451,555	10,623	10,623
Due to other funds	899,327	1,988,154	-	-	-	726,308	12,881,761	-	-
Deferred revenue	-	-	-	-	748,381	-	797,254	-	-
Other accrued expenses	-	-	-	-	-	37,654	93,215	-	-
<b>TOTAL LIABILITIES</b>	1,193,723	1,991,190	50,533	944,095	748,381	795,288	16,223,785	10,623	10,623
<b>FUND BALANCES:</b>									
Unreserved, reported in non-major:									
Special revenue funds	8,216,570	(1,850,245)	1,123,662	(241,477)	43,140,347	(35,617)	57,911,787	-	-
Capital projects funds	-	-	-	-	-	-	-	13,824,705	13,824,705
Debt service funds	-	-	-	-	-	-	-	-	-
Permanent Endowment Fund	-	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	8,216,570	(1,850,245)	1,123,662	(241,477)	43,140,347	(35,617)	57,911,787	13,824,705	13,824,705
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 9,410,293	140,945	1,174,196	702,617	43,888,728	759,671	74,135,572	13,835,328	13,835,328

See Notes to Financial Statements.



NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet - By Fund Type -  
Non-major Governmental Funds - continued

AS OF JUNE 30, 2006

	✓ Debt Service (1993 Bonds)	Debt Service Funds					Debt Service (2002A CHAT)
		Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)	Debt Service (1998 NMFA Loan)	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	
<b>ASSETS:</b>							
Cash and cash equivalents:							
Unrestricted	\$ -	82,612	143,308	-	401,572	594,534	333,987
Restricted:							
Taxes receivable, net	100	93	-	-	-	-	652
Due from other funds	-	13,829	-	-	-	-	-
Receivable from other governments	-	-	-	-	-	-	-
Interest receivable	328	7,671	2,691	-	19,350	26,513	16,676
Other receivables	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	\$ 428	104,205	145,999	-	420,922	621,047	351,315
<b>LIABILITIES AND FUND BALANCES:</b>							
<b>LIABILITIES:</b>							
Accounts payable	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Other accrued expenses	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	-	-	-	-	-	-	-
<b>FUND BALANCES:</b>							
Unreserved, reported in non-major:							
Special revenue funds	-	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-
Debt service funds	428	104,205	145,999	-	420,922	621,047	351,315
Permanent Endowment Fund	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	428	104,205	145,999	-	420,922	621,047	351,315
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 428	104,205	145,999	-	420,922	621,047	351,315

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet - By Fund Type -  
Non-major Governmental Funds - continued

AS OF JUNE 30, 2006

	Debt Service Funds			Total Governmental Funds
	Debt Service (2002B WIPP)	Debt Service (2002C HIF)	Debt Service (2002D CHAT)	
<b>ASSETS:</b>				
Cash and cash equivalents:				
Unrestricted	\$ 359,201	81,027	15,237	63,360,819
Restricted	-	-	-	-
Receivables:				
Taxes receivable, net	-	255	-	688,640
Due from other funds	-	-	-	23,780,346
Receivable from other governments	-	-	-	1,916,830
Interest receivable	17,426	1,664	329	342,581
Other receivables	-	-	-	739
<b>TOTAL ASSETS</b>	<b>\$ 376,627</b>	<b>82,946</b>	<b>15,566</b>	<b>90,089,955</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	-	-	-	2,462,178
Due to other funds	-	-	-	12,881,761
Deferred revenue	-	-	-	797,254
Other accrued expenses	-	-	-	93,215
<b>TOTAL LIABILITIES</b>				<b>16,234,408</b>
<b>FUND BALANCES:</b>				
Unreserved, reported in non-major:				
Special revenue funds	-	-	-	57,911,787
Capital projects funds	-	-	-	13,824,705
Debt service funds	376,627	82,946	15,566	2,119,055
Permanent Endowment Fund	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>376,627</b>	<b>82,946</b>	<b>15,566</b>	<b>73,855,547</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 376,627</b>	<b>82,946</b>	<b>15,566</b>	<b>90,089,955</b>

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - By Fund Type - Non-major Governmental Funds

AS OF JUNE 30, 2006

	Special Revenue Funds									
	Traffic Safety Fund (CAS Fund #208)	State Aviation Fund (CAS Fund #205)	Motorcycle Training Fund (CAS Fund #206)	Driver Improvement Program Fund	DWI Prevention and Education Fund (CAS Fund #207)	Bond Project Bonds (CAS Fund #394)	Bond Project Fund (VPPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)	Bond Project Fund (2000 CHAT)	Bond Project Fund (2001 CHAT)
<b>REVENUES:</b>										
User and fuel taxes	\$ 1,257,145	1,978,889	86,424	184,393	204,386	-	-	-	-	-
U.S. Department of Transportation	6,482,214	885,097	-	-	-	-	-	-	-	-
N.M. Department of Human Services	-	4,740	-	-	-	-	-	-	-	-
Miscellaneous	1,185,849	-	-	-	-	-	-	-	-	-
DWI Interlock Device	92,121	-	4,615	-	-	-	-	-	-	-
Interest Revenue	-	-	-	-	-	48,864	1,240	7,594	157	316,388
<b>TOTAL REVENUES</b>	<b>9,017,399</b>	<b>2,868,726</b>	<b>91,039</b>	<b>184,393</b>	<b>204,386</b>	<b>48,864</b>	<b>1,240</b>	<b>7,594</b>	<b>157</b>	<b>316,388</b>
<b>EXPENDITURES:</b>										
Current:										
Operating costs	17,816	63,659	-	-	-	-	-	-	-	-
Personal services	225,945	375,649	-	-	-	-	-	-	-	-
Out-of-state travel	23,239	15,721	-	-	-	-	-	-	-	-
Grants and services	8,102,919	666,997	100,001	162,835	65,062	-	-	-	-	-
Travel	2,462	36,195	-	-	-	-	-	-	-	-
Maintenance and repairs	20,710	51,047	-	-	-	-	-	-	-	-
Supplies	-	21,944	-	-	-	-	-	-	-	-
Contractual services	-	519,883	-	-	-	-	-	-	-	-
Order Costs	-	16,277	-	-	-	-	-	-	1,795,753	-
Employee Benefits	94,901	121,871	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	414,979
Debt service:										
Principal	-	-	-	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>8,487,992</b>	<b>1,889,243</b>	<b>100,001</b>	<b>162,835</b>	<b>65,062</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,795,753</b>	<b>414,979</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>529,407</b>	<b>979,483</b>	<b>(8,962)</b>	<b>21,558</b>	<b>139,324</b>	<b>48,864</b>	<b>1,240</b>	<b>7,594</b>	<b>(1,735,596)</b>	<b>(98,591)</b>
<b>OTHER FINANCING SOURCES (USES):</b>										
Transfers in	-	-	-	14,674	-	12,821	(36,192)	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,674</b>	<b>-</b>	<b>12,821</b>	<b>(36,192)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>529,407</b>	<b>979,483</b>	<b>(8,962)</b>	<b>36,232</b>	<b>139,324</b>	<b>61,685</b>	<b>(34,959)</b>	<b>7,594</b>	<b>(1,735,596)</b>	<b>(98,591)</b>
<b>FUND BALANCES, June 30, 2006</b>	<b>2,319,756</b>	<b>809,270</b>	<b>98,550</b>	<b>257,910</b>	<b>370,597</b>	<b>1,370,553</b>	<b>15,775</b>	<b>2,077,137</b>	<b>(153,303)</b>	<b>8,315,161</b>
<b>RESTATEMENT (NOTE 2)</b>	<b>102,379</b>	<b>295,715</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES, June 30, 2006</b>	<b>2,422,135</b>	<b>1,104,985</b>	<b>98,550</b>	<b>277,910</b>	<b>370,597</b>	<b>1,370,553</b>	<b>15,775</b>	<b>2,077,137</b>	<b>(153,303)</b>	<b>8,315,161</b>
<b>FUND BALANCES, June 30, 2006</b>	<b>2,951,542</b>	<b>2,094,468</b>	<b>89,588</b>	<b>314,142</b>	<b>509,921</b>	<b>1,432,238</b>	<b>(19,184)</b>	<b>2,084,731</b>	<b>(1,888,899)</b>	<b>8,216,570</b>

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - By Fund Type - Non-major Governmental Funds - continued

	Special Revenue Funds					Capital Project Funds	
	Bond Project Fund (2002A) CHAT	Bond Project Fund (2002C) HIF	Bond Project Fund (2002D) CHAT	Bond Project Fund (2004 B/C) GRIP	Federal Planning and Development Fund	Totals Special Revenue Funds	Totals Capital Project Funds
<b>REVENUES:</b>							
User and fuel taxes	-	-	-	-	-	3,711,237	-
U.S. Department of Transportation	-	-	-	-	5,127,984	12,495,295	-
N.M. Department of Human Services	-	-	-	-	1,753,264	1,753,264	-
Miscellaneous	-	-	-	-	4,740	4,740	-
DWI Interlock Device	-	-	-	-	-	1,185,849	-
Interest Revenue	4,849	45,870	174,374	1,021,917	-	1,718,059	-
<b>TOTAL REVENUES</b>	4,849	45,870	174,374	1,021,917	6,881,248	20,868,444	-
<b>EXPENDITURES:</b>							
Current:							
Operating costs	-	-	-	-	9,105	90,580	-
Personal services	-	-	-	-	144,709	746,303	-
Out-of-state travel	-	-	-	-	1,082	40,042	-
Grants and services	-	-	-	-	6,881,248	15,979,062	-
Travel	-	-	-	-	2,766	41,423	-
Maintenance and repairs	-	-	-	-	-	51,047	-
Supplies	-	-	-	-	4,326	46,980	-
Contractual services	-	-	-	-	348	2,255,984	1,000,000
Other Costs	-	-	-	-	-	16,277	-
Employee Benefits	-	-	-	-	40,377	257,149	-
Capital outlay	1,128,893	64,976	4,075,322	-	-	5,684,170	-
Debt service:	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	1,128,893	64,976	4,075,322	-	7,083,951	25,209,017	1,000,000
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(1,124,044)	(19,106)	(3,900,948)	1,021,917	(202,713)	(4,340,573)	(1,000,000)
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfers in	-	-	-	944,033	304	304	-
Transfers out	-	-	-	-	(63,141)	(872,188)	12,000,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	-	-	944,033	(62,837)	(872,492)	12,000,000
<b>NET CHANGES IN FUND BALANCES</b>	(1,124,044)	(19,106)	(3,900,948)	1,965,950	(265,550)	(3,468,081)	11,000,000
<b>FUND BALANCES, June 30, 2005</b>	726,201	1,142,769	3,659,470	41,174,397	229,933	60,961,774	2,824,705
<b>RESTATEMENT (NOTE 2)</b>	-	-	-	-	-	418,094	-
<b>FUND BALANCES, June 30, 2006</b>	726,201	1,142,769	3,659,470	41,174,397	229,933	61,379,868	2,824,705
<b>FUND BALANCES, June 30, 2006</b>	(1,850,245)	1,123,663	(241,478)	43,140,347	(85,617)	57,911,787	13,824,705

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - By Fund Type - Non-major Governmental Funds - continued

	Debt Service Funds									
	Debt Service (1993 Bonds)	Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)	Debt Service (1998 NMFA Loan)	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	Debt Service (2001 NMFA Loan)	Debt Service (2002A CHAT)	Debt Service (2002B WIPP)	
<b>REVENUES:</b>										
User and fuel taxes	-	-	-	-	-	-	-	-	-	-
U.S. Department of Transportation	-	-	-	-	-	-	-	-	-	-
N.M.I. Department of Human Services	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
DWT Interlock Device	-	-	-	-	-	-	-	-	-	-
Interest Revenue	1,730	83,513	17,163	-	220,311	301,899	-	189,365	190,893	
<b>TOTAL REVENUES</b>	1,730	83,513	17,163	-	220,311	301,899	-	189,365	190,893	
<b>EXPENDITURES:</b>										
<b>Current:</b>										
Operating costs	-	-	-	-	-	-	-	-	-	-
Personal services	-	-	-	-	-	-	-	-	-	-
Out-of-state travel	-	-	-	-	-	-	-	-	-	-
Grants and services	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-
Maintenance and repairs	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	-	-	-	-
Other Costs	-	-	-	-	-	-	-	-	-	-
Employee Benefits	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-
Debt service:										
Principal	-	2,785,000	-	-	8,920,000	11,700,000	-	7,180,000	7,730,000	
Interest and other charges	-	1,890,863	1,125,450	-	2,090,706	3,781,875	-	2,737,100	1,690,750	
TOTAL EXPENDITURES	-	4,675,863	1,125,450	-	11,010,706	15,481,875	-	9,917,100	9,420,750	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,730	(4,592,350)	(1,108,287)	-	(10,790,395)	(15,179,976)	-	(9,727,735)	(9,229,857)	
<b>OTHER FINANCING SOURCES (USES):</b>										
Transfers in	(50,625)	4,675,863	1,125,450	-	11,010,706	15,481,875	-	9,917,100	9,420,750	
Transfers out	-	(160,383)	-	-	-	-	-	-	-	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	(50,625)	4,515,480	1,125,450	-	11,010,706	15,481,875	-	9,917,100	9,420,750	
<b>NET CHANGES IN FUND BALANCES</b>	(48,895)	(16,870)	17,163	-	220,311	301,899	-	189,365	190,893	
<b>FUND BALANCES, June 30, 2006</b>	49,323	121,075	128,836	-	200,611	319,148	-	161,950	185,734	
<b>RESTATEMENT (NOTE 2)</b>	-	-	-	-	-	-	-	-	-	
<b>FUND BALANCES, June 30, 2006</b>	49,323	121,075	128,836	-	200,611	319,148	-	161,950	185,734	
<b>FUND BALANCES, June 30, 2006</b>	428	104,205	145,929	-	420,922	621,047	-	351,315	376,627	

**NEW MEXICO DEPARTMENT OF TRANSPORTATION**  
 Combining Statement of Revenues, Expenditures, and Changes in  
 Fund Balances - By Fund Type - Non-major Governmental Funds - continued

	Debt/Service Funds			Total Governmental Funds
	Debt Service (2002C IHF)	Debt Service (2002D CHAT)	Debt Service Funds	
<b>REVENUES</b>				
User and fuel taxes	-	-	-	3,711,287
U.S. Department of Transportation	-	-	-	12,495,295
N.M. Department of Human Services	-	-	-	1,753,264
Miscellaneous	-	-	-	4,740
DWT Interlock Device	-	-	-	1,185,849
Interest Revenue	20,129	3,130	1,028,133	2,746,192
<b>TOTAL REVENUES</b>	20,129	3,130	1,028,133	21,896,577
<b>EXPENDITURES</b>				
Current:				
Operating costs	-	-	-	90,580
Personal services	-	-	-	746,303
Out-of-state travel	-	-	-	40,042
Grants and services	-	-	-	15,979,062
Travel	-	-	-	41,423
Maintenance and repairs	-	-	-	51,047
Supplies	-	-	-	46,980
Contractual services	-	-	-	3,255,984
Other Costs	-	-	-	16,277
Employee Benefits	-	-	-	257,149
Capital outlay	-	-	-	5,684,170
Debt service:				
Principal	1,709,524	254,825	38,315,000	38,315,000
Interest and other charges	1,709,524	254,825	15,281,093	15,281,093
<b>TOTAL EXPENDITURES</b>	(1,689,395)	(251,695)	(52,567,960)	(57,908,533)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,709,524	254,825	53,545,468	53,545,772
Transfers in	-	-	(100,383)	12,771,805
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	1,709,524	254,825	53,445,085	66,317,577
<b>NET CHANGES IN FUND BALANCES</b>	20,129	3,130	877,125	8,409,044
<b>FUND BALANCES, June 30, 2006</b>	62,817	12,436	1,241,930	65,028,409
<b>RESTATEMENT (NOTE 2)</b>	-	-	-	418,094
<b>FUND BALANCES, June 30, 2006</b>	62,817	12,436	1,241,930	65,446,503
<b>FUND BALANCES, June 30, 2006</b>	82,946	15,565	2,119,055	73,855,547

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Revenues and Expenditures - Capital Project Fund -  
Budget and Actual

AS OF JUNE 30, 2006

CAPITAL PROJECTS FUND

	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance From Final Budget Over (Under)
	Original	Final						
Expenditures for 2004 multi-year projects Capital outlay	\$ 2,000,000	2,000,000	-	-	-	1,804,124	1,804,124	195,876
Expenditures for 2001 multi-year projects Capital outlay	2,238,000	2,197,574	-	-	-	17,350	17,350	2,180,224
Expenditures for 2000 multi-year projects Capital outlay	2,094,300	2,828,452	-	2,129	2,129	185,364	187,493	2,640,959
Expenditures for 2006 multi-year projects Capital outlay	15,250,000	15,250,000	1,000,000	1,911,978	2,911,978	-	2,911,978	12,338,022
Total expenditures					\$ 2,914,107			

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Revenues and Expenditures -  
Budget and Actual

YEAR ENDED JUNE 30, 2006

	STATE INFRASTRUCTURE BANK			
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary Basis)	Over (Under)
REVENUES:				
Interest	\$ -	-	460,073	460,073
<b>TOTAL REVENUES</b>	-	-	460,073	460,073
REBUDGETED CASH	15,311,281	15,311,281	15,311,281	-
<b>TOTAL BUDGETED REVENUES</b>	\$ 15,311,281	15,311,281	15,771,354	460,073
EXPENDITURES:				
Contractual services	\$ 12,224,326	12,224,326	-	12,224,326
<b>TOTAL BUDGETED EXPENDITURES</b>	\$ 12,224,326	12,224,326	-	12,224,326



**REQUIRED SUPPLEMENTARY INFORMATION**

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -  
Special Revenue and Debt Service Fund Types -  
Budget and Actual



YEAR ENDED JUNE 30, 2006

SPECIAL REVENUE AND DEBT SERVICE FUNDS

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Over (Under)
			(Budgetary Basis)	
<b>REVENUES:</b>				
Federal funds	\$ 315,491,700	440,796,383	324,766,138	(116,030,245)
Other state funds	407,278,300	436,413,842	63,825,274	(372,588,568)
State General Fund	<u>706,000</u>	<u>706,000</u>	<u>431,518,733</u>	<u>430,812,733</u>
<b>TOTAL REVENUES</b>	<u>723,476,000</u>	<u>877,916,225</u>	<u>820,110,145</u>	<u>(57,806,080)</u>
<b>PRIOR YEAR ENCUMBRANCE</b>				
CARRY FORWARD		<u>228,086,494</u>		
	\$	<u>951,562,494</u>		

This schedule contains budget to actual data on all major and nonmajor Special Revenue and Debt Service Funds of the Department.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -  
Special Revenue and Debt Service Fund Types -  
Budget and Actual - continued

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
	Original	Final						
<b>TOTAL ANNUAL BUDGETED EXPENDITURES</b>	\$ 723,476,000	1,106,002,719	1,039,227,741	66,774,978	1,106,002,719	-	1,106,002,719	-
Multi-year Budgets - Special Revenue Funds: Expenditures for 2006 multi-year projects:								
Severance tax -								
Contractual services	1,921,000	14,890,000	723,232	13,516,768	14,240,000	-	14,240,000	650,000
General fund -								
Contractual services		16,072,810	1,755,181	13,070,243	14,825,424	-	14,825,424	1,247,386
Total expenditures for 2006 multi-year budgeted projects	1,921,000	30,962,810	2,478,413	26,587,011	29,065,424	-	29,065,424	1,897,386
Expenditures for 2005 multi-year projects:								
Severance tax -								
Contractual services	19,111,750	23,764,750	2,266,585	14,494,334	16,760,919	-	16,760,919	7,003,831
General fund -								
Contractual services	10,743,657	11,791,221	2,240,810	9,172,159	11,412,969	-	11,412,969	378,252
Total expenditures for 2005 multi-year budgeted projects	29,855,407	35,555,971	4,507,395	23,666,493	28,173,888	-	28,173,888	7,382,083
Expenditures for 2004 multi-year projects:								
Severance tax -								
Contractual services	7,961,349	7,665,349	1,575,683	4,247,456	5,823,139	1,595,988	7,419,127	246,222
General fund -								
Contractual services	10,451,228	10,403,665	632,996	4,169,701	4,802,697	2,034,445	6,837,142	3,566,523
Total expenditures for 2004 multi-year budgeted projects	18,412,577	18,069,014	2,208,679	8,417,157	10,625,836	3,630,433	14,256,269	3,812,745

See Independent Auditors' Report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -  
Special Revenue and Debt Service Fund Types -  
Budget and Actual - continued

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
	Original	Final						
Expenditures for 2003 multi-year projects:								
Severance tax -								
Contractual services	\$ 9,342,100	9,262,100	1,263,965	2,631,322	3,895,287	5,170,759	9,066,046	196,054
Total expenditures for 2003 multi-year budgeted projects	9,342,100	9,262,100	1,263,965	2,631,322	3,895,287	5,170,759	9,066,046	196,054
Expenditures for 2002 multi-year projects:								
Severance tax -								
Contractual services	347,500	345,469	176,900	9,797	186,697	158,771	345,468	1
Total expenditures for 2002 multi-year budgeted projects	347,500	345,469	176,900	9,797	186,697	158,771	345,468	1
Expenditures for 2001 multi-year projects:								
Severance tax -								
Contractual services	6,910,784	6,848,528	528,567	602,610	1,131,177	5,563,165	6,694,342	154,186
General fund -								
Contractual services	2,577,500	2,542,129	169,088	289,398	458,486	1,948,068	2,406,554	135,575
Total expenditures for 2001 multi-year budgeted projects	9,488,284	9,390,657	697,655	892,008	1,589,663	7,511,233	9,100,896	289,761
Expenditures for 2000 multi-year projects:								
Severance tax -								
Contractual services	5,677,682	5,478,958	-	-	-	5,213,907	5,213,907	265,051
Total expenditures for 2000 multi-year budgeted projects	5,677,682	5,478,958	-	-	-	5,213,907	5,213,907	265,051

See Independent Auditors' Report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -  
Special Revenue and Debt Service Fund Types -  
Budget and Actual - continued



YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
	Original	Final						
Expenditures for 1999 multi-year projects:								
Severance tax -								
Contractual services	\$ 8,985,435	7,964,561	-	-	-	7,946,543	7,946,543	18,018
Total expenditures for 1999 multi-year budgeted projects	\$ 8,985,435	7,964,561	-	-	-	7,946,543	7,946,543	18,018
<b>TOTAL ANNUAL AND MULTI-YEAR BUDGETED EXPENDITURES</b>			\$ 1,050,560,748		1,179,539,514			

**SUPPLEMENTAL SCHEDULES**

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Severance Tax Bonds



AS OF JUNE 30, 2006

Chapter	Laws	Bonds		Bonds Sold	Amounts AIPP	Funds Reauthorized	Funds Reverted	Bond Balance		Amount Received	Expended To Date	Balance Available
		Appropriated						After Reauthorization				
148	1994	\$ 50,000		50,000	-	-	-	50,000		49,950	49,950	50
2	1999	5,880,821		4,719,721	-	(441,694)		4,278,027		4,225,479	4,225,479	52,548
23	2000	7,138,284		7,138,284	-	(316,117)		6,822,167		6,655,896	6,655,895	166,272
23	2001	55,000		55,000	-	(8,678)		46,322		45,203	45,203	1,119
110	2002	9,491,910		9,491,910	-	(953)		9,490,957		6,722,258	6,762,258	2,728,699
429	2003	7,632,100		7,632,100	(1,250)	(51,495)		7,579,355		4,464,870	4,755,519	2,823,836
126	2004	23,518,750		23,518,750	-	-		23,518,750		8,677,092	9,629,597	13,889,153
347	2005	14,107,000		14,107,000	-	-		14,107,000		481,169	723,232	13,383,768
111	2006	22,429,900		22,429,900	-	-		22,429,900		-	-	22,429,900
		\$ 90,303,765		89,142,665	(1,250)	(818,937)		88,322,478		31,321,917	32,847,133	55,475,345

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Special Appropriations

AS OF JUNE 30, 2006

	Appropriation Amount	Expenditures Inception to 6/30/2006	Encumbrance Balance as of 6/30/2006	Reappropriation Amount	Reversion Amount	Balance as of 6/30/2006
<b>Special Revenue Funds</b>						
Laws of 1991, Chapter 10	\$ 250,000	-	-	-	-	250,000
* Laws of 1994, State House Memorial 110	11,505,000	9,386,782	-	-	2,118,218	-
* Laws of 1994, Senate Memorial 130	11,278,000	9,179,460	-	-	2,098,540	-
Laws of 2000, Chapter 23	2,577,500	2,117,156	289,398	-	35,370	135,576
Laws of 2003, Chapter 385	975,500	407,460	550,000	-	-	18,040
Laws of 2003, Chapter 429	4,631,200	659,981	3,619,701	-	47,563	303,955
Laws of 2004, Chapter 126	4,830,728	925,134	3,627,343	-	-	278,251
Laws of 2004, Chapter 126	5,812,930	315,676	5,397,253	-	-	100,001
	41,860,858	22,991,649	13,483,695	-	4,299,691	1,085,823
<b>Capital Projects Funds</b>						
Laws of 1999, Chapter 2	2,943,000	2,820,052	2,129	-	114,548	6,270
Laws of 2004, Chapter 126	2,000,000	1,804,124	-	-	-	195,876
	4,943,000	4,624,176	2,129	-	114,548	202,146
Total all fund types	\$ 46,803,858	27,615,825	13,485,824	-	4,414,239	1,287,969

\* Note: State House and Senate Memorials are directions on how appropriated monies should be spent. They are not laws.



◆ ***Special Revenue Fund***

Under the Laws of 1991, Chapter 10, the Department was directed to expend \$250,000 from the State Road Fund to conduct a study of financing options and evaluation of environmental issues relating to a proposed rapid rail system.

Under the Laws of 1994, House Memorial 110 and Senate Memorial 130, the Department was directed to expend \$11,505,000 and \$11,278,000, respectively, from the State Road Fund for certain infrastructure improvements.

Under the Laws of 2000, Chapter 23, the Department was directed to expend \$975,000 from the State Road Fund to conduct a study of financing options and evaluation of environmental issues relating to a proposed rapid rail system.

Under the Laws of 2003, Chapter 385, the Department was appropriated \$975,800 from the State of New Mexico General Fund for certain infrastructure projects and improvements. Any unexpended or unencumbered balance remaining at the end of the 2008 fiscal year will revert to the State General Fund.

Under the Laws of 2003, Chapter 429, the Department was appropriated \$4,631,200 from the State of New Mexico General Fund for certain infrastructure projects and improvements. Any unexpended or unencumbered balance remaining at the end of the 2008 fiscal year will revert to the State General Fund.

◆ ***Capital Projects Fund***

Under the Laws of 1999, Chapter 2, the Department was appropriated \$2,043,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2003 fiscal year was reverted to the State Road Fund. Under the laws of 2004, Chapter 126, the appropriation end date was extended for one capital project that totaled \$712,000 through the end of the 2009 fiscal year. Any unexpended or unencumbered balance remaining at the end of the 2009 fiscal year for this project will revert to the State Road Fund.

Under the Laws of 2003, Chapter 429, the Department was appropriated \$4,500,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2008 fiscal year will revert to the State Road Fund.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Individual Bank Accounts

AS OF JUNE 30, 2006

Account Title	CAS Number	Reconciled Balance	Bank Balance
<i>Cash on Deposit with State Treasurer:</i>			
Road Fund - General	201	\$ 62,149,109	96,103,299
Road Fund - Payroll	788	294,229	342,842
Highway Department - WIPP Project	431	30,262,627	30,262,627
Rubberized Asphalt	820	1,921,035	1,921,035
Highway Infrastructure Fund	202	6,036,746	6,036,746
Local Government Fund	203	20,723,524	20,723,524
Traffic Safety	208	2,098,477	2,098,377
Aviation Fund	205	626,606	626,606
Motorcycle Training Fund	206	78,661	78,661
DWI Prevention Fund	207	573,762	573,762
DWI Interlock Fund	896	1,185,849	1,185,849
CHAT-2001A Bond Project-Hyway	006	9,343,403	9,357,194
1993 Bond Projects	394	1,460,095	1,460,095
State Infrastructure Bank	893	10,765,589	10,766,044
1999 CHAT Bond Projects	430	219,157	219,157
1998A CHAT Debt Service	548	126,596	126,596
1999 CHAT Debt Service	434	122,855	122,855
2000A CHAT Bond Projects	345	4,527	4,527
2000A CHAT Debt Service	432	182,476	182,476
2001A CHAT Debt Service	007	231,021	231,021
2002A CHAT Bond Projects	368	139,960	139,960
Cash Debt Service-CHAT-2002A	547	74,724	74,724
Cash Debt Service-WIPP-2002B	750	99,174	99,174
2002C HIF Bond Projects	361	1,165,800	1,164,997
Cash Debt Service-HIF-2002C	363	55,641	55,641
Cash-Bond Proj.-CHAT-2002D	115	670,506	670,506
Cash-Debt Service-CHAT-2002D	187	<u>11,453</u>	<u>11,453</u>
<i>Total Cash on Deposit with State Treasurer</i>		150,623,602	\$ <u>184,639,748</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Individual Bank Accounts - continued



*AS OF JUNE 30, 2006*

<u>Account Title</u>	<u>Reconciled Balance</u>
<i><b>NMFA Loan Proceeds in money market mutual funds</b></i>	
NMFA Loan Proceeds in money market mutual funds	\$ 463,107,992
<i><b>Petty Cash Checking Accounts:</b></i>	
Petty Cash Funds:	
District 1	500
District 2	500
District 3	500
District 4	500
District 5	500
District 6	500
General Office (Santa Fe)	<u>100</u>
<i><b>Total Petty Cash Checking Accounts</b></i>	<u>3,100</u>
<i><b>Total Cash</b></i>	613,734,694
<i><b>Less Unrestricted</b></i>	<u>91,680,839</u>
<i><b>Restricted</b></i>	\$ <u>522,053,855</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of  
State Road Fund User and Fuel Taxes



*YEAR ENDED JUNE 30, 2006*

Gasoline Excise Taxes	\$ 109,723,481
Motor Vehicle Registration Fees	71,469,931
Special Fuel Excise Taxes	97,126,880
Vehicle Transaction Fees	1,609,762
Drivers License Fees	3,943,990
Oversize/Overweight Permit Fees	4,387,102
Public Regulation Commission	3,676,516
Trip (Mileage) Tax	8,576,084
Weight/Distance Taxes	76,452,805
Leased Vehicle Gross Receipts Taxes	5,143,492
Tire Recycling Fees	<u>1,733,999</u>
Subtotal Pledged Revenues	383,844,042
Miscellaneous Fees	<u>2,631,621</u>
	\$ <u>386,475,663</u>

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*AS OF JUNE 30, 2006*

	<u>1998B-WIPP</u>	<u>1998-CHAT</u>	<u>1999-CHAT</u>	<u>2000-CHAT</u>	<u>2001-CHAT</u>
Gasoline Excise Taxes	\$ 109,723,481	109,723,481	109,723,481	109,723,481	109,723,481
Motor Vehicle Registration Fees	71,469,931	71,469,931	71,469,931	71,469,931	71,469,931
Special Fuel Excise Taxes	97,126,880	97,126,880	97,126,880	97,126,880	97,126,880
Vehicle Transaction Fees	1,609,762	1,609,762	1,609,762	1,609,762	1,609,762
Driver's License Fees	3,943,990	3,943,990	3,943,990	3,943,990	3,943,990
Oversize/Oversight Permit Fees	4,387,102	4,387,102	4,387,102	4,387,102	4,387,102
Public Regulation Commission Fees	3,676,516	3,676,516	3,676,516	3,676,516	3,676,516
Trip (Mileage) Tax	8,576,084	8,576,084	8,576,084	8,576,084	8,576,084
Weight/Distance Taxes	76,452,805	76,452,805	76,452,805	76,452,805	76,452,805
Leased Vehicle Gross Receipts Taxes	-	-	-	-	-
Tire Recycling Fees	-	-	-	-	-
FHWA Revenues	-	-	-	-	-
<b>SUBTOTAL</b>	<b>376,966,551</b>	<b>376,966,551</b>	<b>376,966,551</b>	<b>376,966,551</b>	<b>376,966,551</b>
Interest on Cash Balances*	<u>1,238,524</u>	<u>1,238,524</u>	<u>1,238,524</u>	<u>1,238,524</u>	<u>1,238,524</u>
<b>TOTAL PLEDGED REVENUES RECEIVED</b>	<b>\$ <u>378,205,075</u></b>	<b><u>378,205,075</u></b>	<b><u>378,205,075</u></b>	<b><u>378,205,075</u></b>	<b><u>378,205,075</u></b>
	<u>1998B-WIPP</u>	<u>1998-CHAT</u>	<u>1999-CHAT</u>	<u>2000-CHAT</u>	<u>2001-CHAT</u>
Debt Service Principal Expenditures	\$ 2,785,000	-	8,920,000	11,700,000	14,785,000
Debt Service Interest Expenditures	<u>1,890,862</u>	<u>1,125,450</u>	<u>2,090,706</u>	<u>4,391,825</u>	<u>7,088,398</u>
<b>TOTAL DEBT SERVICE</b>	<b><u>4,675,862</u></b>	<b><u>1,125,450</u></b>	<b><u>11,010,706</u></b>	<b><u>16,091,825</u></b>	<b><u>21,873,398</u></b>
<b>DEBT SERVICE COVERAGE</b>	<b><u>80.88</u></b>	<b><u>336.05</u></b>	<b><u>34.35</u></b>	<b><u>23.50</u></b>	<b><u>17.29</u></b>

\*NOTE: In addition to state road fund revenues, pledged revenues on 2004C CRIP include FHWA revenues, tire recycling fees, leased vehicle gross receipts tax, and interest earned in the HIF fund.

## Supplemental Schedule of Debt Service and Coverage

<u>2002A-CHAT</u>	<u>2002C-HIF</u>	<u>2002B-WIPP</u>	<u>2002D-CHAT</u>	<u>2004A-GRIP</u>	<u>2004B-GRIP</u>	<u>2004C-GRIP</u>
109,723,481	109,723,481	109,723,481	109,723,481	109,723,481	109,723,481	109,723,481
71,469,931	71,469,931	71,469,931	71,469,931	71,469,931	71,469,931	71,469,931
97,126,880	97,126,880	97,126,880	97,126,880	97,126,880	97,126,880	97,126,880
1,609,762	1,609,762	1,609,762	1,609,762	1,609,762	1,609,762	1,609,762
3,943,990	3,943,990	3,943,990	3,943,990	3,943,990	3,943,990	3,943,990
4,387,102	4,387,102	4,387,102	4,387,102	4,387,102	4,387,102	4,387,102
3,676,516	3,676,516	3,676,516	3,676,516	3,676,516	3,676,516	3,676,516
8,576,084	8,576,084	8,576,084	8,576,084	8,576,084	8,576,084	8,576,084
76,452,805	76,452,805	76,452,805	76,452,805	76,452,805	76,452,805	76,452,805
-	5,143,492	-	-	5,143,492	5,143,492	5,143,492
-	1,733,999	-	-	1,733,999	1,733,999	1,733,999
-	-	-	-	-	-	<u>292,847,438</u>
376,966,551	383,844,042	376,966,551	376,966,551	383,844,042	383,844,042	676,691,480
<u>1,238,524</u>	<u>124,100</u>	<u>1,238,524</u>	<u>1,238,524</u>	<u>1,238,524</u>	<u>1,238,524</u>	<u>1,238,524</u>
<u>378,205,075</u>	<u>383,968,142</u>	<u>378,205,075</u>	<u>378,205,075</u>	<u>385,082,566</u>	<u>385,082,566</u>	<u>677,930,004</u>
<u>2002A-CHAT</u>	<u>2002-HIF</u>	<u>2002B-WIPP</u>	<u>2002D-CHAT</u>	<u>2004A-GRIP</u>	<u>2004B-GRIP</u>	<u>2004C-GRIP</u>
7,180,000	-	7,730,000	-	-	27,940,000	-
<u>2,737,100</u>	<u>1,709,524</u>	<u>1,690,750</u>	<u>254,825</u>	<u>36,216,759</u>	<u>10,038,865</u>	<u>7,868,000</u>
<u>9,917,100</u>	<u>1,709,524</u>	<u>9,420,750</u>	<u>254,825</u>	<u>36,216,759</u>	<u>37,978,865</u>	<u>7,868,000</u>
<u>38.14</u>	<u>224.61</u>	<u>40.15</u>	<u>1.484.18</u>	<u>10.63</u>	<u>10.14</u>	<u>86.16</u>

**SINGLE AUDIT**



NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Expenditures of Federal Awards



YEAR ENDED JUNE 30, 2006

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
<u>Direct Assistance Programs:</u>		
U.S. Department of Energy:		
Waste Isolation Pilot Plant 2004	81.106	\$ <u>27,843,754</u>
Total U.S. Department of Energy		27,843,754
U.S. Department of Transportation:		
Federal Highway Administration highway research, planning and construction (FHWA):		
FHWA Secondary	20.205	107,110,517
FHWA Primary	20.205	73,841,478
FHWA Interstate	20.205	43,731,904
FHWA Urban	20.205	11,242,888
FHWA Other	20.205	<u>43,567,377</u>
		279,494,164
National Highway Traffic Safety Administration (NHTSA):		
Highway Safety Grant	20.600	3,915,027
Fatal Accident Reporting System	20.600	60,257
Occupant Protection Program	20.602	526,771
Safety Incentive Grant for Use of Seatbelts	20.604	363,809
Seatbelt Improvement - Discretionary Innovative	20.604	170,565
Section 164 Transfer Funds	20.608	<u>4,625,176</u>
		9,661,605

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Expenditures of Federal Awards - continued

YEAR ENDED JUNE 30, 2006

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Direct Assistance Programs - continued:		
U.S. Department of Transportation - continued:		
Federal Aviation Division:		
State Planning	20.106	\$ 885,097
Federal Transit Administration (FTA):		
Capital Program Grants and Loans	20.500	1,052,867
Metropolitan and State Planning	20.505	183,124
Rural Public Transportation Program	20.509	3,311,164
Specialized Transportation Program	20.513	<u>581,099</u>
		<u>5,128,254</u>
Total U.S. Department of Transportation		<u>295,169,120</u>
Total Direct Assistance Programs		323,012,874
Pass-Through Programs:		
U.S. Department of Health Granted to the New Mexico Department of Human Services		
Health Resources and Services Administration: Temporary Assistance for Needy Families	93.558	<u>1,753,264</u>
Total Pass-Through Programs		<u>1,753,264</u>
Total Federal Financial Assistance		\$ <u>324,766,138</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Supplemental Schedule of Expenditures of Federal Awards

◆ *General*

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the New Mexico Department of Transportation (Department).

◆ *Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Department's governmental fund financial statements.

Federal grant revenues collected in advance of the period they are intended to finance expenditures are recorded as deferred revenues, except for the amounts for the State Infrastructure Bank, which are recorded as contributions when they are received. The Department did not receive non-cash assistance from federal sources during the current year.

◆ *Reconciliation of Federal Awards*

Statement of Revenues, Expenditures and  
Changes in Fund Balances

U.S. Department of Transportation	\$ 295,169,120
U.S. Department of Energy	27,843,754
NM Department of Human Services	<u>1,753,138</u>
Supplemental Schedule of Expenditures, of Federal Awards	\$ <u>324,766,138</u>



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds presented as supplementary information in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2006, as listed in the table of contents, and have issued our report thereon dated December 11, 2006. We also have audited the combined budget comparisons for the special revenue and debt service funds presented as required supplemental information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

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

reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We noted other findings involving internal control over financial reporting which are described in the accompanying audit findings as 06-1, 05-2, 05-3, 05-4 and 05-6.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of immaterial noncompliance and other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 06-1, 05-2, 05-3, 05-4 and 05-6.

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

Meyners + Company, LLC  
December 11, 2006



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

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

***Compliance***

We have audited the compliance of the State of New Mexico Department of Transportation (Department), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Department’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department’s management. Our responsibility is to express an opinion on the Department’s compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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

### ***Internal Control Over Compliance***

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

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

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

*Meyers + Company, LLC*

December 11, 2006



*YEAR ENDED JUNE 30, 2006*

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Department of Transportation (Department).
2. One reportable condition relating to the audit of financial statements of the Department was identified, and is not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the Department were disclosed during the audit.
4. There were no reportable conditions in the internal control over major programs disclosed by the Department.
5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.
6. The auditors' report on compliance for the major federal award programs for the Department expresses an unqualified opinion.
7. The programs tested as the major programs included:

<b>Program</b>	<b>CFDA #</b>
Federal Highway Administration Programs (FHWA)	20.205
Waste Isolation Plant 2004	81.106

8. The threshold for distinguishing Types A and B programs was \$3,000,000.
9. The Department is considered a low risk auditee.





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

**06-1 INVENTORY RECONCILIATIONS**

*Condition:* During our test work of inventories for the General Office and Districts, we noted the following:

- There were unresolved variances at year end, identified in the inventory reconciliations for the General Office District 1, District 4, and District 5.

*Criteria:* Per Section 6-5-2, NMSA 1978, the General Office and Districts must maintain timely and accurate inventory and accounting records that record in detail each item in the inventory, the number of units, cost, date received, and vendor for each purchase. At the end of each fiscal year, inventory of materials and supplies on hand should be counted and reconciled with inventory records of goods on hand. When significant shortages or overages are found, the New Mexico Department of Transportation shall determine the cause(s) and augment internal controls as necessary to control and minimize any future occurrences.

*Cause:* Lack of sufficient management oversight and proper training of staff to identify and correct variances.

*Effect:* Significant inventories reported at year end could be inaccurate and non-compliant with Generally Accepted Accounting Principles.

*Recommendation:* We recommend that the Department review its inventory reconciliation process and strengthen the internal control process.

*Management's Response:* The Capital Assets unit will continue to work with the districts in identifying and resolving all inventory reconciliation variances. The district business managers and the district engineers will be notified on any unresolved variances. Training will be coordinated by the Capital Assets unit to ensure that all district staff are knowledgeable and familiar with the Department's Model Accounting practices and all applicable policy and procedures pertaining to the Department's inventory assets.



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

**05-2 PERSONNEL AND PAYROLL (REPEATED AND MODIFIED)**

*Condition:* During our payroll disbursements test work, we noted the following:

- Three out of forty personnel files did not contain a PERA form.

*Criteria:* Personnel files must contain complete and current information on employees per State Personnel Act (10-9-1 to 10-9-25 NMSA 1978) and Internal Revenue Service (IRS) Publication 15.

*Cause:* Lack of sufficient management oversight.

*Effect:* The Department may not be able to support payroll transactions.

*Recommendation:* We recommend that the NMDOT put procedures in place to ensure the completeness of personnel files as required.

*Management's Response:* The Department continues to make progress in this area and procedures will be strengthened to ensure completeness of personnel files.

**05-3 GRIP POSTING ERRORS (REPEATED AND MODIFIED),  
REPORTABLE CONDITION**

*Condition:* During our audit, we noted the following posting errors that were corrected as audit entries:

- Activity for trustee accounts was not posted accurately.
- Cash accounts held at trustee were not reconciled during the course of the year.

*Criteria:* Accounting transactions should be properly recorded to the correct fund and general ledger account. All accounting transactions must be recorded to ensure completeness of the accounting records.

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

**05-3 GRIP POSTING ERRORS (REPEATED AND MODIFIED),  
REPORTABLE CONDITION - continued**

*Cause:* Insufficient resources allocated to the review process.

*Effect:* The Department's general ledger was misstated as follows:

- Cash held at trustee was overstated.
- Investment fees were not recorded, and were therefore understated.
- Gains and losses were not recorded, and were therefore understated.
- Transfers between trustee accounts were not recorded.
- Interest receivable was not recorded at year end. As a result, revenue was understated.

*Recommendation:* The Department should implement improvements in the review function to ensure transactions are being properly recorded to the correct fund and general ledger account.

*Management's Response:* Staff turnover during FY 06 in the Bond Unit and Accounting Services Manager position were some of the underlying factors contributing towards this finding. The Department, upon being notified of this finding, immediately took efforts to work with the auditors on providing enhanced information and has already taken measures to enhance and strengthen processes in the posting and review functions. The Department will review the feasibility of obtaining services from an Independent Public Accounting firm with Investment Accounting expertise to consult with Department staff, to ensure that all transactions are posted accurately and in accordance with all applicable rules and regulations, and that monthly reviews and reconciliations are performed timely and accurately to detect any potential problems.

**05-4 LACK OF SEGREGATION OF DUTIES (REPEATED)**

*Condition:* The Department's Financial Management Information System (FMIS) administrator and the FMIS Contractor are assigned both system and program analyst responsibilities. Also, the program analysts have access to FMIS applications in live operation and thus have access to live data. The duties performed by the IT personnel are not rotated.

*Criteria:* There should be a separation of duties between program analysts and the system administrator. Programmers should work in a test environment and be denied access to live applications and data. Duties of the IT personnel should be rotated periodically to enhance controls over the IT function.

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

**05-4 LACK OF SEGREGATION OF DUTIES (REPEATED) - continued**

*Cause:* Lack of sufficient staff to provide for segregation.

*Effect:* The Department and the contractor, FMIS system administrators/programmers, are able to grant themselves the authority needed to the production environment. This could result in accidental or intentional modifications to the application software or live data.

Without rotation, data could be improperly modified and such changes could go unnoticed. Additionally, without rotation, it becomes difficult to maintain efficient operations when there is employee turnover.

*Recommendation:* We recommend the Information Systems Bureau obtain sufficient staffing to allow proper segregation of duties between system administration and programming duties; programmers should not be allowed to work in production environments; and duties should be rotated.

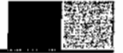
*Management's Response:* The Department, along with all state agencies, has changed financial and accounting software; this should not be a finding next year as the Department of Finance and Administration is responsible for software maintenance on the new system (SHARE).

**05-6 DISASTER RECOVERY PLAN (REPEATED)**

*Condition:* The Department's Disaster Recovery Plan contains references to a "Hot Site" which has not yet been established. There are no written procedures in place for the following IT functions:

- Preventing the testing of new or revised applications on live data files.
- Development of new applications, as well as modifications of existing applications.
- Formal testing to check the functioning of new applications.
- Day-to-day required functions, such as backing up the system and performing maintenance on user groups.
- Job descriptions and duties of administrators.

*Criteria:* Details in a Disaster Recovery Plan are necessary to ensure continued operation of mission critical systems in the event of a disaster.



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

**05-6 DISASTER RECOVERY PLAN (REPEATED) - continued**

*Cause:* The "Hot Site" referenced in the Department's Disaster Recovery Plan is in the process of being established. IT functions/procedures are "understood" but not written.

*Effect:* Faced with a major disaster, the Department may be unable to continue its mission critical functions. In cases of administrator turnover, necessary IT procedures may be foregone.

*Recommendation:* We recommend that the Department continue to take the necessary steps to ensure the plan to establish a "Hot Site" is completed. We recommend that the Department develop written documentation for the IT functions as noted above.

*Management's Response:* The Department has worked hard on resolving this finding, and testing is underway to establish a "hot site" that we will utilize in case of a data disaster. The Department is establishing the Southern design facility in Las Cruces to be that hot site. We have upgraded the communication line at that facility to a DS3, purchased the same hardware that exists at the General office and have purchased software that mirrors data files and databases to allow recovery of critical systems. The Department's goal is to perform a test of the software by the first quarter of 2007.

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

None

**NEW MEXICO DEPARTMENT OF TRANSPORTATION**

**Summary Schedule of Prior Year Audit Findings**



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- 05-1      Receipts -- Cleared
  - 05-2      Personnel and Payroll -- Repeated and Modified
  - 05-3      General Ledger Posting Errors -- Repeated and Modified
  - 05-4      Lack of Segregation of Duties -- Repeated
  - 05-5      Improper or Incorrect User Access -- Cleared
  - 05-6      Disaster Recovery Plan -- Repeated



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An exit conference was held with the Department on December 13, 2006. The conference was held at the Department's offices in Santa Fe, New Mexico. In attendance were:

STATE OF NEW MEXICO DEPARTMENT OF TRANSPORTATION

Arthur Gottlieb, Deputy Inspector General  
Elias Martinez, Finance Manager  
Gary Giron, Deputy Secretary of the Office of Business Support  
David Schutz, Commissioner  
Larry Viarreal, Finance Bureau Director  
Tom Church, Chief of Staff, Office of the Secretary

MEYNNERS + COMPANY, LLC

Brandon Hill Haines, CPA, CFE, Assurance Principal  
Janet Pacheco-Morton, CPA, CGFM, Manager  
Jesse Muniz, Senior

PREPARATION OF FINANCIAL STATEMENTS

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

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