

NEW MEXICO
DEPARTMENT OF
TRANSPORTATION
Financial Statements
for the Year Ended
June 30, 2007,
and Independent
Auditors' Report

NEW MEXICO DEPARTMENT OF TRANSPORTATION



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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster

Year Ended June 30, 2007

Commission

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

Administrative Officer

Rhonda G. Faught, P.E.	Cabinet Secretary
Gary Giron	Deputy Secretary

INDEPENDENT AUDITORS' REPORT

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2007, 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, 2007, 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, 2007, 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.



Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2007, 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, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2008, 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*

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

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.

Mayneus + Company, LLC

September 2, 2008

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007

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, 2007. 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 32 through 94 of this audit report.

Financial Highlights

The Department's net assets declined by \$292,531,993, mainly due to depreciation and amortization expense of \$523,085,599. The net assets of the Department's governmental activities decreased by \$292,265,397 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.

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 21 through 23 of this report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007 - continued

Overview of the Financial Statements - continued

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.
- **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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007 - continued

Overview of the Financial Statements - continued

Fund Financial Statements - continued

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.

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.

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 104 through 117.

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 30 through 33 and the cash flows statement is on page 31 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 34 through 98 of this report.

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis -
Year Ended June 30, 2007 - continued

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, 2007, the Department's assets exceeded liabilities by \$6,089,790,995.

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.

Net Assets

As of June 30, 2007 and 2006, 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, 2007 and 2006.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 1,076,765,237	758,039,314	19,617,041	18,883,637	1,096,382,278	776,922,951
Capital assets and other	<u>7,073,498,383</u>	<u>7,232,952,905</u>	-	-	<u>7,073,498,383</u>	<u>7,232,952,905</u>
Total assets	8,150,263,622	7,990,992,219	19,617,041	18,883,637	8,169,880,663	8,009,875,856
Liabilities:						
Current liabilities	286,611,162	225,605,680	-	-	286,611,162	225,605,680
Long-term liabilities	<u>1,793,478,506</u>	<u>1,405,093,320</u>	-	-	<u>1,793,478,506</u>	<u>1,405,093,320</u>
Total liabilities	2,080,089,668	1,630,699,000	-	-	2,080,089,668	1,630,699,010
Net assets:						
Invested in capital assets, net of related debt and unspent bond proceeds	5,153,462,227	5,756,153,765	-	-	5,153,462,227	5,756,153,765
Restricted	<u>916,720,332</u>	<u>601,139,454</u>	<u>19,617,041</u>	<u>18,883,637</u>	<u>936,328,768</u>	<u>18,883,637</u>
Total net assets	\$ 6,070,173,954	<u>6,360,293,219</u>	<u>19,617,041</u>	<u>18,883,637</u>	6,089,790,995	<u>6,379,176,852</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Management's Discussion and Analysis -
Year Ended June 30, 2007 - continued**

Government-wide Financial Analysis – continued

Changes in Net Assets

Table A-2 provides a summary of the Department's operations for the years ended June 30, 2007 and 2006. Governmental activities decreased the Department's net assets by \$293,265,397 in 2007 and by \$285,589,213 in 2006. Business-type activities increased the Department's net assets by \$733,404 in 2007 and by \$567,784 in 2006 due to interest income earned during the year.

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Capital grants	\$ 282,799,624	346,858,920	-	-	282,799,624	346,858,920
Operating grants	120,765,052	19,247,338	-	-	120,765,052	19,247,338
Charges for services	14,847,206	13,679,470	-	-	14,847,206	13,679,470
General revenues:						
Taxes	426,886,345	412,271,395	-	-	426,886,345	412,271,395
Interest income	47,461,693	27,191,910	733,404	567,784	48,195,097	27,759,694
Gain (loss) on disposal of assets	<u>(34,518)</u>	<u>428,050</u>	<u>-</u>	<u>-</u>	<u>(34,518)</u>	<u>428,050</u>
Total revenues	892,725,402	819,677,083	733,404	567,784	893,458,806	820,244,867
Expenses:						
Public works	554,165,527	507,163,867	-	-	554,165,955	507,163,867
Depreciation & amortization	523,085,599	514,838,292	-	-	523,058,599	514,838,292
Interest on long-term debt	98,952,245	75,087,737	-	-	98,952,245	75,087,737
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other expenses	1,176,203,799	1,097,089,896	-	-	1,176,203,799	1,097,089,896
Net revenues (loss) before transfers and reversions	(283,478,397)	(277,412,813)	733,404	567,784	(282,744,993)	(276,845,029)
Transfers and reversions	<u>(9,787,000)</u>	<u>(8,176,400)</u>	<u>-</u>	<u>-</u>	<u>(9,787,000)</u>	<u>(8,176,400)</u>
(Decrease) increase in net assets	(293,264,969)	(285,589,213)	733,404	567,784	(292,531,993)	285,021,429
Net assets, beginning of year	6,360,293,219	6,615,093,717	18,883,637	18,315,853	6,379,176,856	6,633,409,570
Adjustments	<u>3,145,704</u>	<u>30,788,715</u>	<u>-</u>	<u>-</u>	<u>3,146,132</u>	<u>30,788,715</u>
Net assets, end of year	\$ <u>6,070,173,954</u>	<u>6,360,293,219</u>	<u>19,617,041</u>	<u>18,883,637</u>	<u>6,089,790,995</u>	<u>6,379,176,856</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Management's Discussion and Analysis -
Year Ended June 30, 2007 - continued**

Government-wide Financial Analysis - continued

The changes in net assets for the Department's major funds for 2007 are as follows:

State Road Fund	\$ 21,840,816
2004 GRIP Bond Project Fund	(209,796,535)
2004A GRIP Debt service	<u>746,734</u>
Major funds, net change in assets	\$ <u>187,208,985</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 2007 fiscal year, the Department's governmental funds reported combined ending fund balances of \$895,969,174, an increase of \$234,059,126 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 \$67,584,446.

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 \$78,738,587. 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	\$ 1,737,452
Increase in budget to increase cash balance and loan repayments	14,545,000
Increase in budget for Federal Highway Administrative allocation	1,011,632
Increase in budget to fund projected shortfall in personnel services and employee benefits, grants and services for Alcohol Countermeasure Project	5,021,286
Increase in budget to fund transit and rail	7,751,797
Increase in budget to fund State Infrastructure Bank	1,660,000
Loans budget for salaries and benefit needs	3,117,579
Increase for software upgrade	765,000

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis -
Year Ended June 30, 2007 - continued

Financial Analysis of the Government's Funds - continued

Budgetary Highlights - continued

Increase in budget to fund projected shortfall in personnel services and employee benefits	\$	11,900,000
Increase in Local Government Road Fund		3,828,841
Increase in budget to fund projected shortfall in GRIP Road Project		<u>27,400,000</u>
	\$	<u>78,738,587</u>

Capital Assets Overview

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$7,022,216,987 (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 2006-2007 Active Projects with a contract amount of \$10 million or more:

- Sunland Park Drive Extension (phase II) for 1.320 km
- I-10, MP 34.200 to MP 44.800 for 10.600 miles
- US 54, MP 189.0 to 200.6, Vaughn to Duran for 11.610 Miles
- I-25, 2.48 km North of Alameda Interchange to Tramway
- I-40/Coors Interchange
- I-40, Pennsylvania to Tramway MP 163.64 to MP 167.88
- I-40, MP 169 to MP 174 for 4.602 miles
- I-40, MP 180.08 to 182.74, Sedillo Hill for 4.360 km
- NM 209, South of I-40 Interchange to NM 104/Maple Ave.
- 1-40, Newkirk Interchange-East MP 300 to Mp 308 for 8.570
- US 64, Widening Project Raton to Clayton for 10.601 Miles

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Management's Discussion and Analysis -
Year Ended June 30, 2007 - continued**

Capital Assets Overview - continued

Major Infrastructure Projects - continued

- 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 2007, the Equipment non-GAAP budget total was \$1,501,000 million. Of this budget, \$877,100million was fully expended at June 30, 2007. 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>2007</u>	<u>2006</u>
Land	\$ 4,979,663	5,063,076
Right of way	373,318,194	371,809,740
Infrastructure	15,031,104,263	15,110,054,777
Equipment and furniture	30,933,278	50,982,903
Buildings	38,463,834	37,589,491
Vehicles	179,456,262	165,716,344
Accumulated depreciation	<u>(8,636,038,507)</u>	<u>(8,560,433,963)</u>
Total	\$ <u>7,022,216,987</u>	<u>7,180,782,368</u>

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Management's Discussion and Analysis -
Year Ended June 30, 2007 - continued**

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, 2007, the Department had a total outstanding debt (bonds) of \$1,832,645,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

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

	2007	2006
Bonds, net	\$ <u>1,832,645,000</u>	<u>1,455,505,000</u>

The Department's total bond debt increased by 25.9%, or \$377,140,000. Total outstanding bond debt at the end of the fiscal year was \$1,832,645,000, compared to \$1,455,505,000 at the end of the 2006 fiscal year. Key factors affecting the Department's outstanding bonds during the current fiscal year included bond principal repayments totaling \$83,345,000, including the partial redemption of two outstanding bond series through the issuance of refunding bonds totaling \$10,085,000, and the issuance of four new money bond series totaling \$460,485,000. See Note 11 for a detail of all outstanding bonds.

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

The New Mexico Finance Authority (NMFA) issued a total of \$460,485,000 in new money and refunding bonds on behalf of the Department during fiscal 2007. The Series 2006A of new money bonds totaling \$150,000,000 were issued in September of 2006. The Series 2006B of new money bonds totaling \$30,000,000 and refunding bonds totaling \$10,085,000 were issued in September of 2006, the Series 2006C of new money bonds totaling \$220,000,000 were issued in September of 2006 and the Series 2006D of taxable new money bonds totaling \$50,400,000 were issued in September of 2006. The following is a detail of the bonds issued:

The NMFA State Transportation Revenue Bonds (Senior Lien) Series 2006A in the amount of \$150,000,000 were issued in September 2006 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2006A Bonds are being issued by the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds for certain transportation projects authorized by the State Legislature. Those projects are part

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007 - continued

Debt Administration - continued

of Governor Richardson's Investment Partnership (GRIP) plan to upgrade and improve highways throughout the State and to develop a broad-based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

The NMFA State Transportation Revenue and Refunding Bonds (Subordinate Lien) Series 2006B in the amount of \$40,085,000 were issued in September 2006 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2006B Bonds are being issued by the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds for certain transportation projects authorized by the State Legislature and to provide funds to refund and restructure certain outstanding bonds of the Department. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad-based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

The NMFA Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien) Series 2006C in the amount of \$220,000,000 were issued in September 2006 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2006C Bonds are being issued by the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds for certain transportation projects authorized by the State Legislature. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

The NMFA Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien) Series 2006D (Taxable) in the amount of \$50,400,000 were issued in September 2006 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2006D Bonds are being issued by the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds for an escrow agreement required to be maintained by the Department pursuant to a Joint Use Agreement between the Department and the BNSF Railway Company.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007 - continued

Economic Factors and Revenue Forecasts

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the twelfth fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent. Most of this population growth is occurring in or near the larger cities. There are four 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; the Santa Fe MSA is Santa Fe County, and the Farmington MSA is San Juan County. The fastest growing counties in the state are Sandoval, Dona Ana, Bernalillo and Santa Fe.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing and mining. In 2006, the value of energy resources production (crude petroleum, natural gas and coal) was approximately \$15.6 billion. Total value of energy and other mineral production was \$17.0 billion. The mining industry employed about 19,400 New Mexicans in 2007. 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 has slightly increased as a result of the passage of the new 5 year transportation reauthorization bill entitled "SAFETEA-LU" in 2005. The amounts of "obligation limitation" available to New Mexico are \$287.5 million in FY2005, \$292.8 million in FY2006, and \$271.1 million in FY2007. This compares to previous amounts of \$278.9 million in FY2002, \$263.2 million in FY2003, and \$243.5 million in FY2004. The reauthorization bill provides "apportionment" amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

As of November 2007, the Department projects FHWA "obligation authority" should increase over the next two years as follows: \$302.1 million in FY2008 and \$305.4 million in FY2009.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007 - continued

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Federal Revenue - continued

Federal Transit and Traffic Safety Revenue: The five-year reauthorization of federal transportation funding to the states that was recently passed by Congress is entitled the "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21st Century – A Legacy for Users" (SAFETEA-LU). The reauthorization bill stresses the importance of safety innovations, including a new "Safe Routes to School Program" that promotes walking and riding bicycles to school. With this emphasis on safety, it is expected there will be increased federal revenue available to states for traffic safety and transit programs. The Department anticipates the total amount of funding from the Federal Transit Administration (FTA) and federal traffic safety (NHTSA) increased from the \$13 million level in past years to \$27.8 million in FY2007.

DOE Revenue: The Department of Energy will continue to provide New Mexico with more than \$20 million per year through FY2011 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 FY2004, \$21.1 million in FY2005, \$19.8 million in FY2006, and \$14.7 million in FY2007.

State Revenue:

Revenues for the New Mexico Department of Transportation over the long term (20 years) are characterized as being steady and growing at rates associated with the Consumer Price Index (CPI). There have been periods of stronger and slower, even declining, rates of growth. From fiscal years 1988 to 2000, the average annual compound growth rate was 3.7% and from 2003 to 2007 it was 7.9%. In fiscal year 2001, there was a contraction and then a slowdown due to economic recession that lasted three years.

In the fall of 2003, a special session of the New Mexico Legislature was held and transportation rates and fees were raised on special fuels (primarily diesel), weight/distance trucking rates and motor vehicle registration fees. The basis of these increases was to provide \$40 million annually for the debt service on GRIP, a large, multi-year road construction program. The increases were designed also to add \$20 million for road maintenance. These rate/fee increases, along with strong economy, added almost \$100 million annually (36%) from FY 2003 to FY 2007 to the State Road Fund.

State Revenue Forecasts – Major Revenue Sources

The budget estimate for state tax and fee revenue is prepared in July/August and December/January for each year for the budget year ending 24 months (or 18 months) later. Each fiscal year's revenue estimate is assessed six times: twice before the year begins, twice during the fiscal year and twice after the end, with the final numbers being the actual audit.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007 - continued

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue Forecasts – Major Revenue Sources - continued

In fiscal years 2004 through 2007, state revenues from gasoline, special fuels, weight/distance and vehicle registrations grew by \$15.9, \$40.7, \$22.9 and \$18.7 million each year, respectively. These four revenue sources constitute 94% of the state road fund. These revenues were consistent with the forecasts for the periods and did add the expected \$60 million for GRIP and maintenance. Strong economic trends, particularly in the trucking industry, also helped to provide for strength in revenue growth. Due to the size and importance of each of these four sources, a look at each individually helps to provide a more complete picture of the Department's revenues.

Gasoline tax is the largest of State's revenue sources, providing \$114.6 million in revenue in FY 2007. This tax is 17 cents per gallon of gasoline sold, with about three-fourths going to the state road fund and the remainder going primarily to municipalities and counties. It is the one major tax that was not increased during the special session of 2003. Historically, gasoline gallons sold increased until 1995, plateaued from 1995 to 1999, and decreased to 2001, when they plateaued again. The peak years were 1995 to 1999, with 1998 providing \$117.9 million. When increases, slowing and plateaus are discussed in conjunction with gasoline revenues, it should be noted that they are not very large changes.

Of much interest and frequent query is how the gasoline usage (gallons) is fairing in light of prices and economic slowdown. While being watched carefully, there appears to be some, but not significant, slowing through December 2007. FY 2008 is running \$2.9 million or 4.5% below budget. Trends in national vehicle miles traveled have been flat or slightly declining since 2005, and New Mexico has shown a similar pattern.

Special fuels is the second largest of the state's revenue sources, providing \$97.0 million in FY 2007. The tax per gallon was raised from 18 to 21 cents per gallon effective FY 2005. Of the 21 cents, the Department receives 19 cents, with the remainder going to local governments. With the increase, special fuels has grown by \$22.5 million, or 30%, from FY 2004 to FY 2007. Special fuels, over time, has been a strongly growing revenue with an average annual compound growth rate of 5.25% from 1988 to 2007. FY 2008 is projected to be another strong year, coming in at \$105.5 million. And, while this revenue is being closely watched for softness due to economic slowdown, currently there appears to be little evidence of such a change.

Weight/Distance tax is charged on trucks over 26,000 pounds and varies by load carried and distance traveled in New Mexico. It is the third largest revenue producer, with \$88.4 million in revenue in FY 2007. Its rates, too, were raised in the fall 2003 special session. From FY 2007, an additional \$36.8 million, or 71% in revenue has been received. (It should be noted that a large increase occurred in 2007 because of an accounting time period change, providing for an extra month of revenue.) FY 2008 is forecast to be about \$80.5 million.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2007 - continued

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue Forecasts – Major Revenue Sources - continued

Motor vehicle registration fees are the fourth largest revenue at \$73.5 million. These fees were raised also and have represented an increase of \$20.5 million, or 39%, from FY 2004 to FY 2007. The fees are based on three weight classes for passenger vehicles and 14 weight classes for trucks and commercial carriers. The annual registration fees for trucks over 26,000 pounds are low because those vehicles are subject to the weight/distance taxes above. The long term average annual compound rate of growth has been 4.5%, including the rate increases. With the 2003 increases now in the system, revenues have flattened out and are projected to be \$73.3 million in FY 2008.

State Revenue Forecasts - Procedure Changes Impact

Two revenue sources have been impacted negatively by recent federal procedure rulings and legislation. One is the trip tax and the other is New Mexico Public Regulation Commission common carrier registration fees. Trip tax was charged on trucks in lieu of the weight/distance for those trucks/companies not registered for weight/distance. What was called a cab card and carried in each truck was used for weight/distance registration identification. New federal regulations now prevent states from requiring the showing of the cards. Trip tax, which rose to \$8.6 million in FY 2006 and provided revenues of \$7.6 million in FY 2007, is projected and on-track to provide \$4 million in revenue in FY 2008.

The New Mexico Public Regulation Commission used to collect common carrier registration fees. Because of efforts by the trucking industry to centralize registrations (because so many trucks are on the road and prorating registrations in so many states), a new centralized system and procedures were passed into law in the fall of 2006. In FY 2006, the Department received \$3.7 million in revenue. Under the new national system, the total fees across the country were capped at \$100 million and then apportioned such that the maximum New Mexico can now receive is \$3.2 million once the system is in place and up and running, which currently it is not. The budgeted \$3.6 million for FY 2007 came in at \$377,000 and FY 2008 is expected to come in at about \$1 million.

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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis -
Year Ended June 30, 2007 - continued

Background - Gasoline Tax and Tribal Tax Sharing Agreements - continued

Economic Factors and Revenue Forecasts - 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: Accounting Services Director
New Mexico Department of Transportation
1120 Cerrillos Road
P.O. Box 1149
Santa Fe, New Mexico 87504-1149
(505) 827-5108

FINANCIAL STATEMENTS

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets

AS OF JUNE 30, 2007

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents (Note 2):			
Unrestricted	\$ 79,766,025	-	79,766,025
Restricted	745,745,410	12,497,624	758,243,034
Receivables:			
Tax receivable	87,931,444	-	87,931,444
Accounts receivable, net (Note 3)	2,337,664	-	2,337,664
Severance tax bond proceeds receivable (Note 4)	64,405,183	-	64,405,183
Interest receivable	1,779,102	396,253	2,175,355
Notes and loans receivable (Note 5)	24,715	6,723,164	6,747,879
U.S. Department of Transportation, net (Note 6)	21,853,845	-	21,853,845
Other State Agencies	43,589,642	-	43,589,642
Capitalized issuance costs	886,352	-	886,352
Capitalized Bond Discounts	121,713	-	121,713
Inventories (Note 8)	13,948,317	-	13,948,317
Prepaid expense - warranty	3,189,034	-	3,189,034
Property held for resale, net	11,186,793	-	11,186,793
TOTAL CURRENT ASSETS	1,076,765,239	19,617,041	1,096,382,280
NON-CURRENT ASSETS:			
Capitalized issuance costs	9,830,255	-	9,830,255
Capitalized Bond Discounts	2,190,839	-	2,190,839
Prepaid expense - warranty	39,260,302	-	39,260,302
Capital assets, net (Note 9)	7,022,216,987	-	7,022,216,987
TOTAL NON-CURRENT ASSETS	7,073,498,383	-	7,073,498,383
TOTAL ASSETS	\$ 8,150,263,622	19,617,041	8,169,880,663

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets - continued

AS OF JUNE 30, 2007

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable and contracts payable, including retainage of \$2,598,816	\$ 90,407,856	-	90,407,856
Due to other state agencies	6,279,134	-	6,279,134
Accrued payroll, taxes and withholdings	5,704,480	-	5,704,480
Accrued interest	3,504,001	-	3,504,001
Deferred revenue	35,477,883	-	35,477,883
Arbitrage rebate obligation (Note 20)	-	-	-
Other liabilities	7,579,338	-	7,579,338
Due to others - Severance Taxes	55,080,047	-	55,080,047
Current portion of long-term obligations:			
Compensated (Note 11)	5,202,000	-	5,202,000
Debentures payable (Note 11)	72,470,000	-	72,470,000
Capitalized bond premium	<u>4,906,423</u>	<u>-</u>	<u>4,906,423</u>
TOTAL CURRENT LIABILITIES	286,611,162	-	286,611,162
LONG-TERM LIABILITIES:			
Arbitrage rebate obligation (Note 20)	-	-	-
Long-term obligations:			
Compensated absences (Note 11)	1,419,408	-	1,419,408
Debentures payable (Note 11)	1,730,700,273	-	1,730,700,273
Capitalized bond premium	<u>61,358,825</u>	<u>-</u>	<u>61,358,825</u>
TOTAL LONG-TERM LIABILITIES	<u>1,793,478,506</u>	<u>-</u>	<u>1,793,478,506</u>
TOTAL LIABILITIES	\$ <u>2,080,089,668</u>	<u>-</u>	<u>2,080,089,668</u>
NET ASSETS:			
Invested in capital assets, net of any related debt and unspent debt proceeds	\$ 5,153,462,227	-	5,153,462,227
Restricted for:			
Loans	-	19,617,041	19,617,041
Specific purposes	<u>916,711,727</u>	<u>-</u>	<u>916,711,727</u>
TOTAL NET ASSETS	\$ <u>6,070,173,954</u>	<u>19,617,041</u>	<u>6,089,790,995</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities

YEAR ENDED JUNE 30, 2007

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
PROGRAM EXPENSES:			
Public works - roads	\$ 554,165,527	-	554,165,527
Depreciation and amortization	523,085,599	-	523,085,599
Interest	<u>98,952,245</u>	<u>-</u>	<u>98,952,245</u>
TOTAL PROGRAM EXPENSES	1,176,203,371	-	1,176,203,371
PROGRAM REVENUES:			
Charges for services	14,847,206	-	14,847,206
Operating grants	120,765,052	-	120,765,052
Capital grants	<u>282,799,624</u>	<u>-</u>	<u>282,799,624</u>
TOTAL PROGRAM REVENUES	<u>418,411,882</u>	<u>-</u>	<u>418,411,882</u>
NET PROGRAM (EXPENSE) REVENUE	(757,791,489)	-	(757,791,489)
GENERAL REVENUES:			
User and fuel taxes	426,886,345	-	426,886,345
Interest income	47,461,693	733,404	48,195,097
Gain on disposal of assets	<u>(34,518)</u>	<u>-</u>	<u>(34,518)</u>
TOTAL GENERAL REVENUES (EXPENSES)	474,313,520	733,404	475,046,924
TRANSFERS:			
Transfers to other state agencies and local governments, net (Note 14)	<u>(9,787,000)</u>	<u>-</u>	<u>(9,787,000)</u>
TOTAL TRANSFERS	<u>(9,787,000)</u>	<u>-</u>	<u>(9,787,000)</u>
NET GENERAL REVENUES AND TRANSFERS	<u>464,526,520</u>	<u>733,404</u>	<u>465,259,924</u>
CHANGE IN NET ASSETS/OPERATING INCOME	(293,264,969)	733,404	(292,531,565)
NET ASSETS, BEGINNING OF FISCAL YEAR	6,360,293,219	18,883,637	6,379,176,856
RESTATEMENT (Note 22)	<u>3,145,704</u>	<u>-</u>	<u>3,145,704</u>
NET ASSETS, BEGINNING OF FISCAL YEAR	<u>6,363,438,923</u>	<u>18,883,637</u>	<u>6,382,322,560</u>
NET ASSETS, END OF FISCAL YEAR	\$ <u>6,070,173,954</u>	<u>19,617,041</u>	<u>6,089,790,995</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2007

	Major Funds				Total Governmental Funds
	State Road Fund	Bond Project Fund (2004A GRIP)	Debt Service (2004A GRIP)	Other Governmental Funds	
ASSETS:					
Cash and cash equivalents (Note 2):					
Unrestricted	\$ 50,295,696	-	-	29,470,329	79,766,025
Restricted	38,944,285	204,845,689	708,266	501,247,170	745,745,410
Receivables:					
Taxes receivable	82,816,660	-	-	5,114,784	87,931,444
Accounts receivable, net (Note 3)	1,107,462	-	-	1,230,202	2,337,664
Severance Tax Bond proceeds receivable (Note 4)	64,405,183	-	-	-	64,405,183
Interest receivable	859,712	321,977	38,368	559,045	1,779,102
Notes and loans receivable (Note 5)	24,715	-	-	-	24,715
Due from:					
Other State agencies	43,345,800	-	-	243,842	43,589,642
Due from other funds (Note 7)	142,448,402	10,444,965	-	23,802,746	176,696,113
U.S. Department of Transportation, net (Note 6)	17,543,126	-	-	4,310,719	21,853,845
Inventories (Note 8)	13,948,317	-	-	-	13,948,317
Prepaid expense - NM44 Warranty	42,449,336	-	-	-	42,449,336
Property held for resale	11,186,793	-	-	-	11,186,793
TOTAL ASSETS	\$ 509,375,487	215,612,631	746,634	565,978,837	1,291,713,589
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 58,475,707	17,683,564	-	14,248,585	90,407,856
Due to other funds (Note 7)	135,437,909	16,062,233	-	25,195,971	176,696,113
Payable to other governments	24,139	-	-	6,254,995	6,279,134
Deferred revenue	52,349,578	-	-	1,647,869	53,997,447
Due to others	55,080,047	-	-	-	55,080,047
Other accrued expenses	5,631,789	-	-	72,691	5,704,480
Other payables	4,924,776	2,424,538	-	230,024	7,579,338
TOTAL LIABILITIES	311,923,945	36,170,335	-	47,650,135	395,744,415
FUND BALANCES:					
Reserved for:					
Inventories	13,948,317	-	-	-	13,948,317
Encumbrances	-	-	-	-	-
Prepaid expenses	42,449,336	-	-	-	42,449,336
Debt service	-	-	-	-	-
Property held for resale	11,186,793	-	-	-	11,186,793
Unreserved-undesignated (Note 21)	129,867,096	389,238,831	746,634	-	519,852,561
Unreserved, reported in non-major:					
Special revenue funds	-	(209,796,535)	-	459,336,570	249,540,035
Capital projects funds	-	-	-	10,130,319	10,130,319
Debt service funds	-	-	-	48,861,813	48,861,813
TOTAL FUND BALANCES	197,451,542	179,442,296	746,634	518,328,702	895,969,174
TOTAL LIABILITIES AND FUND BALANCES	\$ 509,375,487	215,612,631	746,634	565,978,837	1,291,713,589

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2007

Total Fund Balances - Governmental Funds
(Governmental Fund Balance Sheet) \$ 895,969,174

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

Amounts recorded as deferred revenue in the governmental funds
that were not received within the period of availability - 60 days
after year end; recorded as revenue in the Statement of Activities: 18,519,564

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

The cost of capital assets is \$ 15,658,255,494
Accumulated depreciation is (8,636,038,507)

Total capital assets 7,022,216,987

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 (1,804,902,138)
Compensated absences (6,621,408)
Amortization of deferred costs on refunding
not recorded by the government funds 1,731,865

Accrued of interest on long-term obligations not recorded by the
governmental funds until paid. (3,504,001)

Capitalized issuance costs not recorded in the governmental funds as
an asset, net of amortization. 10,716,607

Bond discounts 2,312,552

Capitalized bond premiums not recorded in the governmental
funds as a liability, net of amortization. (66,265,248)

Net assets of governmental activities (Statement of Net Assets) \$ 6,070,173,954

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2007

	State Road Fund	Bond Project Fund (2004A GRIP)	Debt Service (2004A GRIP)	Other Governmental Funds	Total Governmental Funds
REVENUES:					
User and fuel taxes	\$ 400,627,644	-	-	26,258,701	426,886,345
U.S. Department of Transportation	228,464,022	-	-	28,667,475	257,131,497
U.S. Department of Energy	8,796,432	-	-	-	8,796,432
Licenses and permits	-	-	-	528,251	528,251
Charges for services	11,304,479	-	-	1,366,607	12,671,086
Interest Revenue	2,442,247	14,463,283	409,914	30,146,249	47,461,693
TOTAL REVENUES	651,634,824	14,463,283	409,914	86,967,283	753,475,304
EXPENDITURES:					
Current:					
Operating costs	9,030,285	-	-	71,157	9,101,442
Personal services	97,026,611	-	-	260,551	97,287,162
Out-of-state travel	298,444	-	-	33,083	331,527
Grants and services	2,498,069	-	-	55,297,735	57,795,804
Travel	21,574,802	-	-	243,016	21,817,818
Maintenance and repairs	8,013,099	-	-	68,863	8,081,962
Supplies	33,259,322	-	-	39,027	33,298,349
Contractual services	266,648,589	-	-	1,936,946	268,585,535
Other costs	7,998,905	-	1,750,000	1,672	9,750,577
Employee benefits	47,222,530	-	-	98,673	47,321,203
Capital outlay	86,766,572	224,735,948	-	52,878,771	364,381,291
Debt service:					
Interest and other charges	-	-	36,216,759	62,351,708	98,568,467
Principal	-	-	-	83,345,000	83,345,000
Debt refunding costs	-	-	-	330,195	330,195
Debt issuance cost	-	-	-	1,047,792	1,047,792
TOTAL EXPENDITURES	580,337,228	224,735,948	37,966,759	258,004,189	1,101,044,124
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	71,297,596	(210,272,665)	(37,556,845)	(171,036,906)	(347,568,820)
OTHER FINANCING SOURCES (USES):					
Proceeds from long-term debt, net	-	-	-	460,485,000	460,485,000
Severance Tax Bond revenue	24,255,000	-	-	-	24,255,000
State General Fund revenue	96,510,052	-	-	-	96,510,052
Bond Premiums	-	-	-	12,599,159	12,599,159
Bond Discounts	-	-	-	(2,434,265)	(2,434,265)
Transfers	(170,221,832)	476,130	38,303,479	121,655,223	(9,787,000)
(USES)	(49,456,780)	476,130	38,303,479	592,305,117	581,627,946
NET CHANGES IN FUND BALANCES	21,840,816	(209,796,535)	746,634	421,268,211	234,059,126
FUND BALANCES, June 30, 2006	175,610,726	389,238,831	-	96,259,728	661,109,285
RESTATEMENT (Note 22)	-	-	-	800,763	800,763
FUND BALANCES, June 30, 2006, Restated	175,610,726	389,238,831	-	97,060,491	661,910,048
FUND BALANCES, June 30, 2007	\$ 197,451,542	179,442,296	746,634	518,328,702	895,969,174

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2007

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 234,059,126

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

Amounts recorded as deferred revenue in the governmental funds that were not received within the period of availability - 60 days after year end; recorded as revenue in the Statement of Activities: 18,519,564

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 (789,573)

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	\$ 364,376,290
Depreciation expense	(525,252,094)
Sale of fixed asset, net book value	<u>(34,518)</u>

Excess of depreciation expense over capital outlay (160,910,322)

Repayment of debentures recorded as expenditures in the governmental funds, recorded as a reduction in long-term liabilities in the Statement of Net Assets. 83,345,000

Deferred amount of debt recorded as a reduction of long-term liabilities in the Statement of Activities (886,352)

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 \$65,270,802, recorded as a reduction of interest expense in the Statement of Activities. 4,906,423

Governmental Funds report bond proceeds as an other financing source, \$460,485,000 recorded as a liability in the Statement of Net Assets, and associated premium/discounts of \$8,786,907. (469,271,907)

Bond Issuance Costs (121,713)

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 \$10,866,843, recorded as an expense in the Statement of Activities. (1,731,865)

Net change in accrual of long-term debt interest expense not recorded in the governmental funds until paid. (383,352)

Rounding 2

Change in net assets of governmental activities
(Statement of Activities) \$ (293,264,969)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2007

State Infrastructure Bank

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents (Note 2):		
Unrestricted	\$	12,497,624
Restricted		-
Receivables:		
Tax receivable		-
Accounts receivable, net (Note 3)		-
Severance tax bond proceeds receivable (Note 4)		-
Interest receivable		396,253
Notes and loans receivable (Note 5)		6,723,164
U.S. Department of Transportation, net (Note 6)		-
Capitalized issuance costs		-
Inventories (Note 8)		-
Prepaid expense - warranty		-
Property held for resale, net		-

TOTAL CURRENT ASSETS 19,617,041

NON-CURRENT ASSETS:

Capitalized issuance costs		-
Prepaid expense - warranty		-
Capital assets, net (Note.9)		-

TOTAL NON-CURRENT ASSETS -

TOTAL ASSETS \$ 19,617,041

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2007

LIABILITIES:	<u>State Infrastructure Bank</u>
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	<u>-</u>
LONG-TERM LIABILITIES:	
Arbitrage rebate obligation (Note 20)	-
Long-term obligations (Note 11):	
Compensated absences	-
Debentures payable	-
Capitalized bond premium	-
TOTAL LONG-TERM LIABILITIES	<u>-</u>
TOTAL LIABILITIES	<u>\$ -</u>
NET ASSETS:	
Invested in capital assets, net of any related debt and unspent debt proceeds	\$ -
Restricted for:	
Loans	19,617,041
Specific purposes	-
TOTAL NET ASSETS	<u>\$ 19,617,041</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2007

State Infrastructure Bank

PROGRAM EXPENSES:

Public works - roads	\$	-
Depreciation and amortization		-
Interest		-

TOTAL PROGRAM EXPENSES

-

PROGRAM REVENUES:

Charges for services		-
Operating grants		-
Capital grants		-

TOTAL PROGRAM REVENUES

-

NET PROGRAM (EXPENSE) REVENUE

-

GENERAL REVENUES:

User and fuel taxes		-
Interest income		733,404
Gain on disposal of assets		-

TOTAL GENERAL REVENUES (EXPENSES)

733,404

TRANSFERS:

Transfers to other state agencies and local governments, net (Note 14)		-
--	--	---

TOTAL TRANSFERS

-

NET GENERAL REVENUES AND TRANSFERS

733,404

CHANGE IN NET ASSETS/OPERATING INCOME

733,404

NET ASSETS, BEGINNING OF FISCAL YEAR

18,883,637

RESTATEMENT (Note 22)

-

NET ASSETS, BEGINNING OF FISCAL YEAR

18,883,637

NET ASSETS, END OF FISCAL YEAR

\$ 19,617,041

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Cash Flows
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2007

	<u>State Infrastructure Bank</u>
Cash flows provided from operating activities:	
Interest income received	\$ 412,952
Cash flows used from financing activities:	
Loans issued	(886,598)
Loans repaid	<u>2,205,681</u>
Net decrease in cash and cash equivalents	1,732,035
Cash and cash equivalents at June 30, 2006	<u>10,765,589</u>
Cash and cash equivalents at June 20, 2007	\$ <u><u>12,497,624</u></u>
Reconciliation of operating income to net cash provided from operating activities:	
Operating income	\$ 733,404
Adjustment to reconcile operating income to net cash by operating activities:	
Increase in interest receivables	<u>(320,452)</u>
Cash flows provided by operating activities	\$ <u><u>412,952</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.

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.

- **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, 2007.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Financial Reporting Entity - continued**

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.

• 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Basis of Presentation - continued**

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-Fund No. 20100. 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.

• 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.

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.

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

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, 2007, 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.

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.

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

Local Government Road Fund (Fund #20300). 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.

Federal Planning and Development Fund (Fund #10030). 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 Highway Safety Act of 1966, as amended, 23 U.S.C. 401 Et. Seq. and 23 U.S.C. 410, authorizes the establishment of this fund. The fund does not receive state general fund appropriations that are subject to reversion.

Traffic Safety Fund (Fund #20800). 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 (Fund #20500). 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.

Motorcycle Training Fund (Fund #20600). 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 (Fund #10020). 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. This is a non-reverting fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

DWI Prevention and Education Fund (Fund #20700). 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. This is a non-reverting fund.

Bond Project Fund (1993 Bonds) (Fund #39400). 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) (Fund #78900 and 00400). 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 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) (Fund #54600). 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Bond Project Fund (2000 CHAT) (Fund #34500). 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) (Fund #00600). 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 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) (Fund #36800). 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) (Fund #36100). 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds - continued

Bond Project Fund (2002D CHAT) (Fund #11500). 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.

Bond Project Fund 2006A (Fund #10210) – The bond project fund was created due to the issuance of the September 2006 \$150,000,000 Revenue Bonds Series 2006A. The 2006A Bonds were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has deemed necessary or desirable as part of the GRIP transportation projects.

Bond Project Fund 2006B (Fund #10230) – The bond project fund was created due to the issuance of the September 2006 \$39,005,000 of State Transportation, Series 2006B Refunding Revenue Bonds. The series 2006B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the State Transportation Commission.

Bond Project Fund 2006C (Fund #10250) - The bond project fund was created due to the issuance of the September 2006 \$220,000,000 of State Transportation, Series 2006C Revenue Bonds. The series 2006C Bonds were issued as adjustable rate securities and were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of the GRIP transportation projects.

Bond Project Fund 2006D (Fund #10270) - The bond project fund was created due to the issuance of the September 2006 \$50,680,000 of State Transportation, Series 2006D Revenue Bonds. The series 2006D Bonds were issued to provide funds for an escrow account required to be maintained by the Department pursuant to a Joint Use Agreement between the Department and the BNSF Railway Company.

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 (Fund #26100). Created when the \$50,000,000 State of New Mexico Highway Debentures Series were issued in 1993.

Debt Service - WIPP Bonds (Fund #21100, 67700 and 97200). 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 (Fund #54800). 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 (Fund #43400). 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 (Fund #43200). Created when the \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A were issued in May 2001.

Debt Service - 2002A CHAT Bonds (Fund #54700). Created when the \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A were issued in January 2002.

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

Debt Service - 2002B WIPP Bonds (Fund #75000). 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 (Fund #36300). 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 (Fund #18700). Created when the \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D were issued in December 2002.

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.

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.

Debt Service Fund - 2006A. The fund was created when the \$150,000,000 New Mexico State Highway Commission Revenue Bonds Series 2006A were issued in September 2006 to account for debt service payments. The fund does not receive state general fund appropriations that are subject to reversion.

Debt Service Fund - 2006B. The fund was created when the \$40,085,000 New Mexico State Highway Commission Revenue Bonds Series 2006B were issued in September 2006 to account for debt service payments. The fund does not receive state general fund appropriations that are subject to reversion.

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

Debt Service Fund – 2006C. The fund was created when the \$220,000,000 New Mexico State Highway Commission Revenue Bonds Series 2006C were issued in September 2006 to account for debt service payments.. The fund does not receive state general fund appropriations that are subject to reversion.

Debt Service Fund – 2006D. The fund was created when the \$50,400,000 New Mexico State Highway Commission Revenue Bonds Series 2006D were issued in September 2006 to account for debt service payments. The fund does not receive state general fund appropriations that are subject to reversion.

Capital Project Improvements Fund. The Capital Project Improvements 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- 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Budgets and Budgetary Accounting - continued**

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.

• 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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• 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. The revenue related to taxes is recorded when the underlying transaction occurs.

• 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).

• 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Notes and Loans Receivable - continued**

their loan agreements. Management's evaluation of the loan portfolio has determined that no allowance for uncollectible loans is required at June 30, 2007. 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).

• Due From the U.S. Department of Transportation

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

• Due From/To Other Funds

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

• Inventory

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

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

• Prepaid Expense - Warranty

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

• Property Held for Resale

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Capital Assets – continued**

- 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 compensated absences is calculated at pay rates in effect at June 30, 2006, and includes 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Long-Term Obligations - continued**

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".

• 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.

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

• 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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

2. CASH AND CASH EQUIVALENTS - continued

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, 2007, are as follows:

	SHARE Account	
	<u>Number</u>	<u>Amount</u>
Unrestricted:		
Road Fund	20100	\$ 48,181,976
Local Government Fund	20300	22,231,718
Aviation Fund	20500	4,009,653
Motorcycle Training Fund	20600	84,670
DWI Prevention Fund	20700	732,963
Traffic Safety	82600, 20800	7,431,227
Driver Improvement Program Fund	10020	147,873
Capital Project Improvements	10050	(2,578,049)
Federal Planning and Development	10030	<u>(2,838,771)</u>
		\$ <u>77,403,260</u>
Restricted:		
Road Fund (relates to WIPP bond projects and various other road projects)	43100	\$ 38,944,285
Bond Project Fund (1993 Bonds)	39400	1,506,143
Bond Project Fund (1999 CHAT Bonds)	43000	226,119
Bond Project Fund (2000 CHAT Bonds)	34500	4,670
Bond Project Fund (2001 CHAT Bonds)	00600	9,424,830
Bond Project Fund (2002A CHAT Bonds)	36800	144,406
Bond Project Fund (2002C HIF Bonds)	36100	1,203,019
Bond Project Fund (2002D CHAT Bonds)	11500	719,587
Bond Project Fund (2004A GRIP Bonds)	10230	(13,377,319)
Bond Project Fund (2006B GRIP Bonds)	10250	(2,115,852)
Bond Project Fund (2004A GRIP Bonds)	20400	18,539,014
Debt Service Fund (1998 CHAT Bonds)	54800	130,618
Debt Service Fund (1999 CHAT Bonds)	43400	126,759
Debt Service Fund (2000 CHAT Bonds)	43200	188,274

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

2. CASH AND CASH EQUIVALENTS - continued

	SHARE Account Number		Amount
Debt Service Fund (2001A CHAT Bonds)	00700	\$	232,648
Debt Service Fund (2002A CHAT Bonds)	54700		77,098
Debt Service Fund (2002B WIPP Bonds)	75000		102,325
Debt Service Fund (2002C HIF Bonds)	36300		57,409
Debt Service Fund (2002D CHAT Bonds)	18700		11,817
State Infrastructure Bank	89300		12,497,624
			68,643,474
Total State Treasurer Accounts		\$	146,046,734
Other authorized bank accounts – Wells Fargo Bank		\$	242,045
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, 2007.			
Bond proceeds are invested in money market mutual funds at the Bank of Albuquerque		\$	691,710,680

Money market funds are managed by New Mexico Finance Authority (fiscal agent) and held by State Treasurer authorized bank accounts at Bank of Albuquerque as trustee and paying agent for Department. The sources of funds are bond proceeds and other debt service requirements. These funds are invested in short-term money market accounts that invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations.

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

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

Concentration of Credit Risk. Concentration of credit risk is defined as investments of more than 5% in any one issuer. The Department is not susceptible to concentration of credit risk.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

2. CASH AND CASH EQUIVALENTS - continued

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

3. ACCOUNTS RECEIVABLE

The aging of accounts receivable as of June 30, 2007, is as follows:

Number of Days Outstanding

0 - 30	\$	-
31 - 60		385
61 - 120		1,107,041
Beyond 120		<u>1,595,959</u>
		2,703,385
Allowance for uncollectible accounts		<u>1,595,959</u>
	\$	<u>1,107,462</u>

The Department considers the following accounts receivable to be fully collectible:

Midregion Council of Governments	\$	1,211,417
Other		<u>18,785</u>
	\$	<u>1,230,202</u>
Total accounts receivable, net at June 30, 2007	\$	<u>2,337,664</u>

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

4. SEVERANCE TAX BOND PROCEEDS RECEIVABLE

Severance tax bonds proceeds receivable as of June 30, 2007, 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	\$ 55,475,345
Sale and reauthorization of severance tax bonds	54,654,257
Funding from the State Board of Finance	(44,905,482)
Reversion to the State Board of Finance	<u>(818,937)</u>
Balance, end of year	\$ <u>64,405,183</u>

The funding for the year ended June 30, 2007 was received under the Laws of 1994, Chapter 148; Laws of 1999, Chapter 2; Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110; Laws of 2003, Chapter 110 and 429; Laws of 2005, Chapter 347; and Laws of 2006, Chapter 347 and 111 for projects completed.

5. BUSINESS-TYPE ACTIVITIES NOTES AND LOANS RECEIVABLE

Notes receivable as of June 30, 2007 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.	\$ <u>24,715</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
City of Rio Rancho, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	495,695
County of Bernalillo, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	<u>5,586,382</u>
	\$ <u>6,723,164</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

6. DUE FROM U.S. DEPARTMENT OF TRANSPORTATION

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2007:

Agency

Federal Highway Administration	\$ 17,543,126
Other USDOT Agencies	<u>4,310,719</u>
Total USDOT	\$ <u>21,853,845</u>

Subsequent to June 30, 2007, the Federal Highway Administration unbilled portion of \$16,871,695 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

These amounts represent interfund receivables and payables arising from interfund transactions within the Department. Due from/to other funds occur for the following reasons:

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

Interfund receivables and payables as of June 30, 2007 consist of the following:

	Fund Number	Due From Other Funds	Due to Other Funds
Special Revenue Funds:			
Federal Traffic Safety Fund	10010	\$ 3,431,364	4,150,413
Driver Improvement Program Fund	10020	289,504	-
Federal Mass Transit Fund	10030	14,860	741,168
State Road Fund	20100	142,448,402	135,437,909
Local Government Road Fund	20300	-	1,826,039
Bond GRIP Project Fund - GRIP 2004A	20400	10,444,965	16,062,233
State Aviation Fund	20500	1,340,226	174,703
DWI Prevention & Education Fund	20700	-	31,533
Bond Project Fund - CHAT 2000A	34500	1,788,987	3,682,444
Bond Project Fund - CHAT 2002A	36800	-	2,020,148
Bond Project Fund -1993 Bonds	39400	-	37,804
Bond Project Fund - CHAT 1999A	43000	3,088,612	1,224,580
Bond Project Fund - CHAT 2001A	60000	-	899,327
Bond Project Fund - GRIP 2006C	10250	-	10,397,188
Total Special Revenue Funds		162,846,920	176,685,489
Debt Service Funds:			
Debt Service Fund - WIPP 1998	97200	13,829	-
Debt Service Fund - CHAT 2001A	70000	-	-
Total Debt Service Funds		13,829	-

Notes to Financial Statements - continued

7. DUE FROM AND DUE TO OTHER FUNDS - continued

	Fund Number	Due From Other Funds	Due to Other Funds
Capital Projects Funds:			
Capital Projects Fund	10050	\$ <u>13,835,364</u>	<u>10,624</u>
Total Capital Projects Funds		<u>13,835,364</u>	<u>10,624</u>
Total interfund receivables and payables		\$ <u>176,696,113</u>	<u>176,696,113</u>

8. INVENTORY

Inventory as of June 30, 2007, consists of the following:

Highway maintenance materials stockpiled.	\$ 7,661,305
Repair parts and expendable supplies	5,390,071
Fuel, oil and lubricants	<u>896,941</u>
	\$ <u>13,948,317</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

9. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Adjustments</u>	<u>Adjusted Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Non-depreciable assets:						
Land	\$ 5,063,076	(83,413)	4,979,663	-	-	4,979,663
Right of way	371,809,740	-	371,809,740	1,508,454	-	373,318,194
Depreciable assets:						
Infrastructure	15,110,054,777	-	15,110,054,777	349,075,576	(428,026,090)	15,031,104,263
Equipment and furniture	50,982,903	(21,802,993)	29,179,910	1,877,995	(124,627)	30,933,278
Vehicles	165,716,344	6,754,946	172,471,290	11,042,053	(4,057,081)	179,456,262
Buildings	<u>37,589,491</u>	<u>2,131</u>	<u>37,591,622</u>	<u>872,212</u>	<u>-</u>	<u>38,463,834</u>
Total	15,741,216,331	(15,129,329)	15,726,087,002	364,376,290	(432,207,798)	15,658,255,494
Less accumulated depreciation:						
Infrastructure	(8,390,771,555)	-	(8,390,771,555)	(511,998,815)	428,026,090	(8,474,744,280)
Equipment and furniture	(35,340,203)	13,744,268	(21,595,935)	(1,955,870)	113,241	(23,438,564)
Vehicles	(111,569,997)	3,587,134	(107,982,863)	(10,643,019)	4,033,949	(114,591,933)
Buildings	<u>(22,752,208)</u>	<u>142,868</u>	<u>(22,609,340)</u>	<u>(654,390)</u>	<u>-</u>	<u>(23,263,730)</u>
Total accumulated depreciation	<u>(8,560,433,963)</u>	<u>17,474,270</u>	<u>(8,542,959,693)</u>	<u>(525,252,094)</u>	<u>432,173,280</u>	<u>(8,636,038,507)</u>
Net total	\$ <u>7,180,782,368</u>	<u>2,344,941</u>	<u>7,183,127,309</u>	<u>(160,875,804)</u>	<u>(34,518)</u>	<u>(7,022,216,987)</u>

Current year depreciation expense was \$525,252,094. There were no software costs to capitalize as of year-end.

10. OPERATING TRANSFERS

	(Fund 20100)	(Fund 20400)	(Fund 10080)	(Fund 10090)	(Fund 18700)	(Fund 75000)
	State Road Fund	Bond Project Fund 2004A GRIP	Bond Grip Debt Service Grip 2004A	Bond Grip Debt Service 2004B&C	Debt Service Fund- CHAT-2002D	Debt Service Fund- WIPP-2002B
(1)	\$ (157,964,184)	-	36,216,759	35,060,086	1,454,825	9,419,250
(2)	(2,045,000)	-	1,750,000	-	-	-
(3)	(425,648)	-	-	-	-	-
(4)	-	-	-	-	-	-
(5)	-	-	-	-	-	-
(6)	-	476,130	-	-	-	-
(7)	-	-	336,720	(336,720)	-	-
Total	(160,434,832)	<u>476,130</u>	<u>38,303,479</u>	<u>34,723,366</u>	<u>1,454,825</u>	<u>9,419,250</u>
(8)	<u>(9,787,000)</u>					
	\$ <u>(170,221,832)</u>					

- (1) The transfer from the State Road fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) To transfer from the State Road fund to the above debt service funds to cover Trustee Fees.
- (3) The transfer from the State Road fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (4) Transfer interest earnings from one account to another.
- (5) Transfer interest earnings from one account to another.
- (6) Transfer interest earnings from one account to another.
- (7) Transfer interest earnings from one account to another.
- (8) Transfer out to Department of Public Safety.

Notes to Financial Statements - continued

(Fund 43400)	(Fund 43200)	(Fund 700)	(Fund 54700)	(Fund 10240)	(Fund 10220)	(Fund 10260)
Debt Service Fund- CHAT-1999	Debt Service Fund- CHAT-2000A	Debt Service Fund- CHAT-2001A	Debt Service Fund- CHAT-2002A	Bond GRIP Debt Service Fund-2006B	Bond GRIP Debt Service Fund-2006A	Bond GRIP Debt Service Fund-2006C
12,219,906	15,478,375	23,074,648	9,918,100	3,518,344	4,901,856	7,192,363
-	-	-	-	49,167	245,833	-
-	-	-	-	-	-	360,256
-	-	-	-	-	(64,324)	(104,992)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>12,219,906</u>	<u>15,478,375</u>	<u>23,074,648</u>	<u>9,918,100</u>	<u>3,567,511</u>	<u>5,083,365</u>	<u>7,447,627</u>

Notes to Financial Statements - continued

10. OPERATING TRANSFERS - continued

	(Fund 10270)	(Fund 10280)	(Fund 36300)	(Fund 54800)	(Fund 97200)	(Fund 10230)
	Bond GRIP Project Fund - 2006D	Bond GRIP Debt Service Fund-2006D	Debt Service Fund - HIF - 2002C	Debt Service- CHAT- 1998A Bonds	Debt Service Fund- WIPP 1998	Bond Project Fund 2006B
(1)	\$ -	638,336	1,709,524	5,110,200	1,751,613	(9,700,000)
(2)	-	-	-	-	-	-
(3)	-	65,392	-	-	-	-
(4)	-	169,316	-	-	-	-
(5)	(1,355,351)	1,355,351	-	-	-	-
(6)	(476,131)	-	-	-	-	-
(7)	-	-	-	-	-	-
Total	\$ <u>(1,831,482)</u>	<u>2,228,395</u>	<u>1,709,524</u>	<u>5,110,200</u>	<u>1,751,613</u>	<u>(9,700,000)</u>

(8)

- (1) The transfer from the State Road fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) To transfer from the State Road fund to the above debt service funds to cover Trustee Fees.
- (3) The transfer from the State Road fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (4) Transfer interest earnings from one account to another.
- (5) Transfer interest earnings from one account to another.
- (6) Transfer interest earnings from one account to another.
- (7) Transfer interest earnings from one account to another.
- (8) Transfer out to Department of Public Safety.

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, 2007:

Governmental Activities	Balance at June 30, 2006	Increase	Decrease	Balance at June 30, 2007	Amounts Due Within One Year
1998 WIPP Bonds	\$ 34,435,000	-	-	34,435,000	-
1998 CHAT Bonds	21,960,000	-	(4,200,000)	17,760,000	-
1999 CHAT Bonds	29,665,000	-	(10,885,000)	18,780,000	9,870,000
2000 CHAT Bonds	53,815,000	-	(12,340,000)	41,475,000	13,060,000
2001 CHAT Bonds	123,815,000	-	(16,730,000)	107,085,000	17,685,000
2002A CHAT Bonds	44,700,000	-	(7,540,000)	37,160,000	7,935,000
2002B WIPP Bonds	26,085,000	-	(8,115,000)	17,970,000	8,525,000
2002C HIF Bonds	32,945,000	-	-	32,945,000	-
2002D CHAT Bonds	5,770,000	-	(1,200,000)	4,570,000	-
2004A GRIP Bonds	700,000,000	-	-	700,000,000	-
2004B GRIP Bonds	182,315,000	-	(19,985,000)	162,330,000	13,170,000
2004C GRIP Bonds	200,000,000	-	-	200,000,000	-
2006A GRIP Bonds	-	150,000,000	-	150,000,000	-
2006B GRIP Bonds	-	40,085,000	(2,350,000)	37,735,000	2,225,000
2006C GRIP Bonds	-	220,000,000	-	220,000,000	-
2006D GRIP Bonds	-	50,400,000	-	50,400,000	-
Deferred amount on refunding	(30,876,397)	(330,195)	1,731,865	(29,474,727)	-
Compensated absences payable	<u>5,831,835</u>	<u>8,295,371</u>	<u>(7,505,798)</u>	<u>6,621,408</u>	<u>5,202,000</u>
Total obligations	1,430,460,438	\$ <u>468,780,371</u>	<u>(89,135,443)</u>	1,809,791,681	<u>77,672,000</u>
Less current portion	<u>80,395,000</u>			<u>77,672,000</u>	
Net long-term obligations	\$ <u>1,350,065,438</u>			<u>1,732,119,681</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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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, including \$3,979,050 and \$3,753,450, respectively, of original bond issue premium. 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 Department refunded \$4,200,000 of the bonds during the fiscal year. 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 \$2,827,719 based on interest rates that range from 4.5% to 5.125%, are as follows:

Year Ended June 30,	Principal	Interest	Total
Series 1998A CHAT:			
2008	\$ -	1,125,450	1,125,450
2009	10,705,000	1,125,450	11,830,450
2010	<u>7,055,000</u>	<u>576,819</u>	<u>7,631,819</u>
Total	\$ <u>17,760,000</u>	<u>2,827,719</u>	<u>20,587,719</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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 \$5,364,625 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:			
2008	\$ -	1,751,612	1,751,612
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>5,364,625</u>	<u>39,799,625</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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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, including \$1,161,999 of an original issue premium. 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 refunded \$5,500,000 during the fiscal year using proceeds.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$1,740,000, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1999 CHAT:			
2008	\$ 9,870,000	1,141,425	11,011,425
2009	<u>8,910,000</u>	<u>598,575</u>	<u>9,508,575</u>
Total	\$ <u>18,780,000</u>	<u>1,740,000</u>	<u>20,520,000</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

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, including \$5,023,307 of an original issue premium. 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.

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 \$7,229,625, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2000A CHAT:			
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>41,475,000</u>	<u>7,229,625</u>	<u>48,704,625</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

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.

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$20,976,965 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2001A CHAT:			
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>107,085,000</u>	<u>20,976,965</u>	<u>128,061,965</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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

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.

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 \$8,591,850, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002A CHAT:			
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>37,160,000</u>	<u>8,591,850</u>	<u>45,751,850</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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 requirements to amortize the Bonds, including interest payments of \$1,843,000, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002B WIPP:			
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>17,970,000</u>	<u>1,843,000</u>	<u>19,813,000</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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 requirements to amortize the Bonds, including interest payments of \$12,447,292, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002C HIF:			
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>12,447,292</u>	<u>45,392,292</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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 requirements to amortize the Bonds including interest payments of \$1,030,350 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002D CHAT:			
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>4,570,000</u>	<u>1,030,350</u>	<u>5,600,350</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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 \$434,494,408, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004A GRIP:			
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	<u>141,135,000</u>	<u>10,106,838</u>	<u>151,241,838</u>
	\$ <u>700,000,000</u>	<u>434,494,408</u>	<u>1,134,494,408</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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 requirements to amortize the Bonds, including interest payments of \$37,895,750, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004B GRIP:			
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>162,330,000</u>	<u>37,895,750</u>	<u>200,225,750</u>

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.

11. LONG-TERM OBLIGATIONS - continued**• 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, 2007.

The deferred amount on the refunding of \$29,474,727 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.

• Interest Rate Swaps**State Transportation Revenue Bonds, Series 2006**

Objective of the Swaps. In April of 2004, the Authority entered into two forward starting swaps (Swap Agreements), each with a different counterparty and each designed to hedge future interest rates. The intention of the Swap Agreements was to take advantage of historically low interest rates for tax-exempt bonds to be issued in 2006. The State Transportation Revenue Bonds, Series 2006 (2006 Bonds) were issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a \$1.6 billion statewide transportation expansion and infrastructure improvement project. The Swap Agreements each contain a knock-out option that begins on the settlement date and ends on the maturity date of each agreement and that allows each counterparty to cancel the agreement at no cost to the counterparty. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between \$175 million and \$200 million in cash and short-term investments which will act as a natural hedge for any outstanding variable rate bonds that may result from the exercise of any knock-out option.

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

Terms. The Swap Agreements were entered into with J. P. Morgan Chase Bank and UBS AG (J. P. Morgan and UBS, respectively, and collectively the Counterparties). The Swap Agreements were effective on December 15, 2006 and they mature on December 15, 2026. On the trade date, April 22, 2004, J. P. Morgan was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P); Aa2 by Moody's Investor's Service, Inc. (Moody's); and UBS was rated AA+ S&P and Aa2 Moody's. The Swap Agreements were priced at a fixed rate of 5.072% based on an amortizing notional schedule with a combined initial notional amount of \$220,000,000. Under the Swap Agreements, each month commencing on June 15, 2007, the Authority shall make an interest payment based on a fixed rate of 5.072% and the Counterparties shall make an interest payment based on the SIFMA municipal swap index reset weekly. The knock-out option embedded in each of the Swap Agreements was struck at 7% and it is exercisable each day beginning on the settlement date and ending on the maturity date of the Swap Agreements. Each month, the Counterparties shall make an option premium payment to the Authority in an amount that is equal to 0.34% per annum and that will result in a synthetic fixed cost of borrowing of 4.732%. By making the option premium payment to the Authority, the Counterparties have paid to have the right (but not the obligation) to terminate the swap should the 180 day average of the SIFMA municipal swap index move above 7%. The variable rate due on the 2006 Bonds is based on market conditions and not on an index.

Fair Value. As of June 30, 2007, the Swap Agreements, excluding the option value, had a negative fair value of \$21,763,409. The options had a positive value of \$5,547,825 in isolation of the swaps. The Swap Agreements, including the value of the options, had a total negative fair market value of \$16,215,583. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair market value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Basis Risk. **The possibility of a mismatch between actual variable rate bond debt service payments and variable rate receipts.** The variable rate on the 2006 Bonds is expected to closely match SIFMA municipal swap index.

Counterparty / Credit Risk. **The possibility of counterparty non-performance or the possibility of an event occurring that modifies the credit quality or credit rating of the Authority and its counterparty.** As of June 30, 2007, the Authority is not exposed to credit risk because the swaps had a

11. LONG-TERM OBLIGATIONS - continued**• Interest Rate Swaps - continued****State Transportation Revenue Bonds, Series 2006 - continued****Counterparty / Credit Risk - continued.**

negative fair value. If the fair value goes positive at some point in the future, the Counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on Counterparties ratings as set forth in the CSA. J. P. Morgan and UBS were rated AA/Aaa and AA+/Aaa by S&P/Moody's, respectively, as of June 30, 2007.

Interest Rate Risk. The possibility that the debt service costs associated with variable rate debt and negatively affect coverage ratios and cash flow margins. The knock-out option in the swaps leaves the Authority open to interest rate risk. If the SIFMA municipal swap index averages above 7% for 180 consecutive days, then Swap Agreements could be cancelled by the Counterparties and the Authority would have outstanding unhedged variable rate debt in a 7% interest rate environment.

Tax Risk. The possibility that a tax event could affect sufficiency of swap receipts. Because the floating leg of the Swap Agreements is tied to the SIFMA municipal swap index and not to LIBOR, there is no tax risk.

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

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

Objective of the Swap. In April of 2004, the Authority entered into three (3) swaps (the Swap Agreements) with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of \$11,524,206, or 3.02% of the refunded bonds. The Swap Agreements were structured to increase the Authority's savings, when compared against fixed-rate alternatives at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the Swap Agreements was to effectively change the Authority's interest rate on the bonds to a fixed rate.

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

Fair Value. As of June 30, 2007, the Swap Agreements had a negative fair market value of \$220,948 (Lehman \$62,523, Goldman \$52,808, and RBC \$105,616). Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the 2004 Refunding Bonds do not have a corresponding fair value increase. The fair value on the Swap Agreements was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for the hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

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

Basis Risk. The possibility of a mismatch between actual variable rate bond debt service payments and variable rate receipts. As of June 30, 2007, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The synthetic fixed rate is the fixed rate (3.94%) plus or minus the difference between the variable bond payments and the variable swap payments. The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2007, the rate on the bonds was 3.89%, whereas 68% on month LIBOR was 3.6176%.

Counterparty / Credit Risk. The possibility of counterparty non-performance or the possibility of an event occurring that modifies the credit quality or credit rating of the Authority and its counterparty. As of June 30, 2007, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the Counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on Counterparties ratings as set forth in the CSA. Goldman, Lehman and RBC were rated AAA/Aaa, AAA/Aaa and AA-/Aaa by S&P/Moody's, respectively, as of June 30, 2007.

Tax Risk. The possibility that a tax event could affect sufficiency of swap receipts. The Authority is exposed to tax risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rate causes the rate paid on the outstanding bonds to be greater than 68% of LIBOR received on the swap.

Termination Risk. The possibility that an interest rate swap agreement must be terminated prior to its stated final cash flow date, and that the Authority cannot obtain a replacement transaction with substantially similar terms, including because of deterioration of the Authority's own credit. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's, respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has negative fair value, the Authority would be liable to the counterparty for payment equal to the swap's fair value.

11. LONG-TERM OBLIGATIONS - continued**• Interest Rate Swaps - continued****\$100 Million of the \$200 Million GRIP 2004 Floating-to-Synthetic Fixed Rate Refunding Swaps (2004 Swaps)**

Fair Value. As of June 30, 2007, the swap had a negative fair value of \$1,130,726. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Basis Risk. The possibility of a mismatch between actual variable rate bond debt service payments and variable rate receipts. As of June 30, 2007, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 63.05% of the 5 year USD ISDA-SWAP constant-maturity index received on the swap. The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2007, the rate on the bonds was 3.89%, whereas 63.05% of the 5 year USD ISDA-SWAP constant maturity index was 3.4873%.

Counterparty / Credit Risk. The possibility of counterparty non-performance or the possibility of an event occurring that modifies the credit quality or credit rating of the Authority and its counterparty. As of June 30, 2007, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the Counterparty will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on Counterparty ratings as set forth in the CSA. Citibank, N.A. was rated AA+/Aaa by S&P/Moody's, respectively, as of June 30, 2007.

Tax Risk. The possibility that a tax event could affect sufficiency of swap receipts. The Authority is exposed to tax risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than 63.05% of the 5 year USD ISDA-SWAP constant maturity index received on the swap.

Termination Risk. The possibility that an interest rate swap agreement must be terminated prior to its stated final cash flow date, and that the Authority cannot obtain a replacement transaction with substantially similar term, including because of deterioration of the Authority's own credit. The swap uses the International Swap Dealers Association Master Agreement, which

11. LONG-TERM OBLIGATIONS - continued

- Interest Rate Swaps - continued

\$100 Million of the \$200 Million GRIP 2004 Floating-to-Synthetic Fixed Rate Refunding Swaps (2004 Swaps) - continued

Termination Risk - continued.

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

Swap Payments and Associated Debt. As of June 30, 2007, 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 June 30	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2008	\$ -	7,868,000	510,000	8,378,000
2009	-	7,868,000	510,000	8,378,000
2010	-	7,868,000	510,000	8,378,000
2011	-	7,868,000	510,000	8,378,000
2012	-	7,868,000	510,000	8,378,000
2013 - 2017	-	39,340,000	2,550,000	41,890,000
2018 - 2022	-	39,340,000	2,550,000	41,890,000
2023 - 2024	200,000,000	13,203,487	855,844	214,059,331
	\$ 200,000,000	131,223,487	8,505,844	339,729,331

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

• **Bonds Issued by NMFA**

The following bonds were issued by the New Mexico Finance Authority (Authority) in an agency capacity on behalf of the Department of Transportation during the fiscal year:

State Transportation Series 2006A Revenue Bonds. On September 19, 2006, the Authority issued \$150,000,000 of State Transportation, Series 2006A Revenue Bonds. The Series 2006A Bonds were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of GRIP transportation projects. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is reflected by the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$126,063,219, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006A GRIP:			
2008	-	7,477,408	7,477,408
2009	-	7,477,408	7,477,408
2010	-	7,477,408	7,477,408
2011	-	7,477,408	7,477,408
2012	240,000	7,472,608	7,712,608
2013 - 2026	<u>149,760,000</u>	<u>88,680,979</u>	<u>238,440,979</u>
Total	\$ <u>150,000,000</u>	<u>126,063,219</u>	<u>276,063,219</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

State Transportation Series 2006B Revenue Bonds. On September 19, 2006, the Authority issued \$39,005,000 of State Transportation, Series 2006B Refunding Revenue Bonds. The Series 2006B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is reflected by the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$18,206,217, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006B GRIP:			
2008	2,222,500	1,643,725	3,866,225
2009	3,165,000	1,535,238	4,700,238
2010	2,345,000	1,432,350	3,777,350
2011	2,100,000	1,346,946	3,446,946
2012	1,225,000	1,283,585	2,508,585
2013 - 2026	<u>26,677,500</u>	<u>10,964,373</u>	<u>37,641,873</u>
Total	\$ <u>37,735,000</u>	<u>18,206,217</u>	<u>55,941,217</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

State Transportation Series 2006C Revenue Bonds. On September 19, 2006, the Authority issued \$220,000,000 of State Transportation, Series 2006C Revenue Bonds. The Series 2006C bonds were issued as adjustable rate securities and were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of the GRIP transportation projects. Due to certain facts and circumstances specific to this bond issue, the liability associated with this is reflected by the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$191,972,508, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006C GRIP:			
2008	-	10,410,400	10,410,400
2009	-	10,410,400	10,410,400
2010	-	10,410,400	10,410,400
2011	-	10,410,400	10,410,400
2012		10,410,400	10,410,400
2013 - 2026	<u>220,000,000</u>	<u>139,920,508</u>	<u>359,920,508</u>
Total	\$ <u>220,000,000</u>	<u>191,972,508</u>	<u>411,972,508</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

State Transportation Series 2006D Revenue Bonds. On September 19, 2006, the Authority issued \$50,400,000 of State Transportation, Series 2006D Revenue Bonds. The Series 2006D Bonds were issued to provide funds for an escrow account required to be maintained by the New Mexico Department of Transportation pursuant to a Joint Use Agreement between the New Mexico Department of Transportation and the BNSF Railway Company. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is reflected by the New Mexico Department of Transportation and not on the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$53,614,092, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006D GRIP:			
2008	-	3,176,432	3,176,432
2009	-	2,726,360	2,726,360
2010	-	2,726,360	2,726,360
2011	-	2,726,360	2,726,360
2012		2,726,360	2,726,360
2013 - 2026	<u>50,400,000</u>	<u>39,532,220</u>	<u>89,932,220</u>
Total	\$ <u>50,400,000</u>	<u>53,614,092</u>	<u>104,014,092</u>

- Capital Leases

There are no future minimum lease obligations to report as of June 30, 2007.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

Total future principal and interest obligation repayments are as follows:

<u>Year Ended June 30,</u>	<u>Bonds</u>
2008	\$ 165,160,697
2009	164,076,815
2010	160,491,539
2011	151,191,218
2012	138,112,673
2013 – 2017	691,522,599
2018 – 2022	695,583,214
2023 – 2025	<u>730,531,197</u>
Total	\$ <u>2,896,669,952</u>

An obligation amounting to \$6,621,408 at June 30, 2007, 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, 2007, 2006 and 2005 were \$14,933,952, \$15,199,631 and \$18,165,681, respectively, equal to the amount of the required contribution for each year.

13. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS

The State of New Mexico is an employer who participates in a cost-sharing multiple-employer plan for post-employment benefits other than pensions. The New Mexico Retiree Health Care Department (NMRHCA) is the administrator of the plan. 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 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 presents as required supplementary information, a schedule of funding progress and employer contributions necessary for the plan as a whole. 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.

The accounting and financial reporting by employers for postemployment benefits other than pensions (OPEB employers) participating in a cost sharing multiple-employer plan requires OPEB employers to recognize expenditures/expenses for contractually required contributions only. For the fiscal year ended June 30, 2007, the Department remitted \$1,201,755 in employer contributions and \$600,841 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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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

Department. The transfer to Department of Public Safety is a result of an appropriation for the motor transportation division from the State Road Fund.

	<u>Agency Number</u>	<u>Operating Transfers Out</u>
Transfers to Other Agencies:		
Department of Public Safety	01-790	\$ <u>9,787,000</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.

JOINT POWER AGREEMENTS			
<u>Contract Number</u>	<u>Contractor</u>	<u>Description</u>	<u>Expended in 2007</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.	-
J00708	Navajo Nation	Road improvements and a maintenance yard at the Bread Springs Chapter of Navajo Nation in McKinley County.	-
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.	\$50,000
J00710	Santa Ana Pueblo	Provide roadside drainage for the Pueblo/CN L3016.	-

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWER AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2007
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.	-
J00131	City of Albuquerque	Bicycle/pedestrian safety program/CN 9819.	\$27,038
J00550	City of Artesia	Right-of-Way acquisition, rehabilitation and landscaping of railroad depot along US 82 and 285 in Artesia/CN 9824.	-
J00640	NM Corrections Dept.	Highway maintenance and beautification.	\$477,894
J00671	City of Albuquerque	Bicycle Travel Demand Management Program.	\$142,350
J00681	The Navajo Nation	Provide access and safety improvements to the existing corridor on US 666 and conduct an Alignment.	-
J00682	The Navajo Nation	Survey, archaeological clearance and environmental assessment of and improvements to roads in the Rock Springs Chapter in McKinley County.	\$6,141
J00683	The Navajo Nation	Archaeological surveys and environmental assessments for To'hajiilee route north 56 in Bernalillo County.	-
J00684	The Navajo Nation	Road improvements in the Crystal area of San Juan County.	-
J00685	The Navajo Nation	Pave Community roads in the Iyanbito Chapter in McKinley County.	-

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWER AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2007
J00688	Nambe Pueblo	Improvements to County Road 103 from US 84-285 to Nambe Pueblo industrial park.	-
J00692	Village of Tularosa	Construction and remodeling of the existing police department and converting it to the Tularosa Welcome Center/CN 7530.	-
J00694	The Navajo Nation	Purchase and install school zone warning signals and speed sign on NM 491/CN 7782.	-
J00695	The Navajo Nation	Pave roads for the Thoreau Chapter of the Navajo Nation/CN 7742.	-
J00696	City of Albuquerque	Funding of University Blvd./Rio Bravo Blvd. Extension and Interchange to access Mesa del Sol in Albuquerque.	-
J00697	San Juan Pueblo	Miscellaneous construction to include the San Juan Pueblo parking area.	-
J00698	NM Institute of Technology	Severance Tax Agreement for Water Canyon Road/CN 1339.	\$92,645
J00699	Pueblo of Acoma	Construction of "SP 26", an all weather access road/CN 86581.	-
J00700	City of El Paso, Texas	Replacement of the bridge and culverts on Sunland Park Drive/CN 4035/TC 6301(4).	\$55,456
J00701	Energy, Minerals and Natural Resources	Establish a framework to acquire, enhance and maintain approximately 130 acres of wetland habitat in Santa Rosa.	-
J00703	Energy, Minerals and Natural Resources	Provide inmate work crews for improving natural resources and safety on public lands and roads.	-

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWER AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2007
J00704	Pueblo of Laguna	Miscellaneous construction, to include geotechnical and engineering fees for pedestrian, bikeway and roadway improvements at entrances to new Laguna-Acoma High School on Casa Blanca Road.	-
J00706	Department of Tourism	Implement a statewide public awareness litter campaign to educate and inform New Mexicans on litter.	-
J00715	The Navajo Nation	Upgrade signals and lighting at the intersection of US 491 and US 64.	-
J00716	The Navajo Nation	Installation of street lighting along US 491.	-
J00717	NM Tourism Department	Design and construct the Special Attraction Component of the Glenrio and Manuelito rest areas/visitor information centers.	\$100,000
J00718	Pueblo of Acoma	Construction, re-construction of various streets on Pueblo of Acoma Indian Reservation.	-
J00719	Ramah Navajo Chapter	Acquire Rights of Way.	-
J00720	NM General Services Dept.	Assistance in operation of the State's aircraft fleet.	-
J00721	The Navajo Nation	Plan, design and construct various road improvements in McKinley, San Juan and Sandoval counties.	-
J00722	The Navajo Nation	Acquire Right of Way.	-
J00723	Laguna Development Corp.	Landscaping Maintenance Agreement.	-
J00724	Pueblo of Acoma	Road improvements on Skyline Road, Acoma Route 32.	-

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWER AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2007
J00726	Pueblo of Acoma	Construction of Acomita Road, Pueblo of Acoma Indian Reservation/Acomita Road SP30(12)2 & 4.	-
J00727	Pueblo of Santa Clara	Maintain traffic signal at NM 30 and Puye Road.	-
J00728	Tourism Department	Special registration plate with a logo commemorating Route 66.	-
J00729	The Navajo Nation	To plan, design and construct road and culvert improvements.	-
J00730	Corrections Department	To utilize supervised inmates to perform minor highway maintenance and beautification.	-
J00731	Acoma Pueblo	For road improvements on Skyline Road, Acoma Route 32, for 0.8 miles.	-

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, 2007 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 \$271,089,019.

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 and can be reasonably estimated, the Department accrues the loss in the accompanying financial statements. In the opinion of the Department's legal counsel, it is probable that contractor claims in excess of \$50,000,000 may result in potential exposure to the Department, but the exact amount of loss cannot be reasonably estimated and is therefore not accrued in the accompanying financial statements.

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, 2007, was \$969,824.

The future minimum lease payments under operating leases as of June 30, 2007 are approximately as follows:

Years ending June 30:	<u>Lease Amounts</u>
2008	\$ 441,660
2009	321,000
2010	-
2011	-
2012	-
2013 and thereafter	<u> -</u>
	\$ <u>762,660</u>

20. COMMITMENTS AND CONTINGENCIES

• **Arbitrage Rebate Obligation**

As of June 30, 2007, 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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

20. COMMITMENTS AND CONTINGENCIES

• **Grant Revenue - continued**

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, 2007 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, 2007 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. RESTATEMENT

The following error in the Bond Project Fund (2002D CHAT) was corrected as of June 30, 2007. Had this error not been made, the change in fund balance for the year ended June 30, 2006 would have been \$801,191 greater for this fund.

	<u>Bond Project Fund (2002D CHAT)</u>
Fund Balance, Beginning of Year	\$ (241,478)
Adjustment:	
To correct invalid accounts payable/expenditures balance as of June 30, 2006	<u>801,191</u>
Total adjustments	<u>801,191</u>
Fund Balance, Beginning of Year, Adjusted	\$ <u><u>559,713</u></u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

22. RESTATEMENT - continued

	<u>Debt Service Fund (2004B/C GRIP)</u>
Fund Balance, Beginning of Year	\$ -
Adjustment:	
To reflect balance in fund where cash is actually held	<u>43,140,347</u>
Total adjustments	<u>43,140,347</u>
Fund Balance, Beginning of Year, Adjusted	\$ <u>43,140,347</u>

	<u>Bond Project Fund (2004B/C GRIP)</u>
Fund Balance, Beginning of Year	\$ 43,140,347
Adjustment:	
To reflect balance in fund where cash is actually held and close out fund not used by client	<u>(43,140,347)</u>
Total adjustments	<u>(43,140,347)</u>
Fund Balance, Beginning of Year, Adjusted	\$ <u> -</u>

	<u>Debt Service Fund (1993 Bonds)</u>
Fund Balance, Beginning of Year	\$ 428
Adjustment:	
To correct for funds closed out in prior year	<u>(428)</u>
Total adjustments	<u>(428)</u>
Fund Balance, Beginning of Year, Adjusted	\$ <u> -</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

22. RESTATEMENT - continued

The following errors in the Government-wide Financial Statement were corrected as of June 30, 2007. Had these errors not been made, the change in net assets for the year ended June 30, 2006, would have been \$3,146,136 greater for this fund.

Net Assets, Beginning of Year	\$ 6,360,293,219
Adjustments:	
To correct invalid accounts payable/expenditures balance as of June 30, 2006	801,191
To correct for funds closed out in prior year	(428)
The Department conducted a physical inventory of all capital assets and determined that \$2,344,941 in capital assets, net of depreciation, should be adjusted to bring accumulated depreciation and capital assets to actual.	<u>2,344,941</u>
Net Assets, Beginning of Year, Adjusted	\$ <u>6,363,438,923</u>

23. SUBSEQUENT EVENTS – BOND REFUNDINGS

NMFA previously issued \$470.4 million outstanding of Auction Rate Securities (ARS). Auction market in recent years produced lower bond costs to the Department:

- GRIP Series 2004C - \$200 million
- GRIP Series 2006C - \$220 million
- GRIP Series 2006D - \$50.4 million

Beginning in November 2007, the spreads on NMFA's ARS began to widen related to the benchmark SIFMA (also known as BMA) index. Liquidity and credit concerns severely disrupted the auction market, resulting in higher relative interest rates on NMFA's ARS.

First Southwest recommended refunding all of NMFA's ARS into other debt instruments. The fixed rate versus variable rate decision took into account that the Series 2004C for \$200 million and the Series 2006C for \$220 million are tied to swaps. Refunding the swapped ARS with fixed rate bonds would necessitate terminating the swaps and the Department would owe termination payments to the swap counterparties, estimated at \$63.039 million on April 7, 2008. In addition, annual debt service would increase by \$5.3 million and total debt service by \$86.5 million.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

23. SUBSEQUENT EVENTS – BOND REFUNDINGS - continued

NMFA decided to refund to Variable Rate Demand Notes and leave the swaps in place. Series 2008A partially refunded \$115.2 million of the Series 2004C. The rate was set at 1.50% versus an average rate of 4.72% on the 2004C ARS for the prior week.

Series 2008B refunded \$220.0 million of the 2006C in its entirety. The rate was set at 1.55% versus an average rate of 5.16% on the 2004C ARS for the prior week.

New Mexico Finance Authority will convert the balance of \$84.8 million remaining on the Series 2004C and the balance of \$50.4 million on the Series 2006D by issuing a subsequent bond refunding, with a close date of May 19, 2008.

24. BUDGET TO GAAP RECONCILIATION – STATE INFRASTRUCTURE BANK

- **State Infrastructure Bank**

Budget and Actual expenditures	\$	886,598
Reclassification to notes receivable		<u>(886,598)</u>
GAAP basis expenditures	\$	<u><u> -</u></u>

- **Special Revenue and Debt Service Funds**

Budget and Actual expenditures	\$	1,106,375,800
Increase in accounts payable (amounts accrued after DFA cut-off)		<u>4,455,324</u>
GAAP basis expenditures	\$	<u><u>1,110,831,124</u></u>

25. BUDGETED VS. ACTUAL EXPENDITURES

The Department had expenditures that exceeded the final budgeted expenditures as follows:

- Business/Program Support. The Other Expenditures category was over budget by \$24,911,120. Budgeted expenditures were \$173,480,702. Actual expenditures, budgetary basis were \$198,391,822.
- Transportation & Highway Operations. The Other Expenditures category was over budget by \$9,557,078. Budgeted expenditures were \$108,403,323. Actual expenditures, budgetary basis were \$198,391,822.

REQUIRED SUPPLEMENTARY INFORMATION

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combined Schedule of Revenues and Expenditures -
Special Revenue and Debt Service Fund Types -
Budget and Actual (GAAP Basis)**

YEAR ENDED JUNE 30, 2007

SPECIAL REVENUE AND DEBT SERVICE FUNDS

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts (Modified Accrual)</u>	
REVENUES:				
Federal funds	\$ 392,928,600	448,598,315	282,799,624	(165,798,691)
Other state funds	413,514,400	433,465,692	494,930,680	61,464,988
State General Fund	<u>300,000</u>	<u>300,000</u>	<u>96,510,052</u>	<u>96,210,052</u>
TOTAL REVENUES	806,743,000	\$ <u>882,364,007</u>	<u>874,240,356</u>	<u>(8,123,651)</u>
PRIOR YEAR ENCUMBRANCE				
CARRY FORWARD	<u>300,669,551</u>			
	\$ <u>1,107,412,551</u>			

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

YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE	
	Budgeted Amounts	
	Original	Final
EXPENDITURES - current and capital outlay:		
Programs and Infrastructure:		
Personal Services/Employee Benefits	23,085,400	23,994,000
Contractual Services	993,933,334	1,022,481,334
Other	<u>635,235,659</u>	<u>648,472,142</u>
	1,652,254,393	1,694,947,476
Transportation & Highway Ops:		
Personal Services/Employee Benefits	87,586,300	93,386,300
Contractual Services	71,055,638	73,804,721
Other	<u>100,024,482</u>	<u>108,403,323</u>
	258,666,420	275,594,344
Business/Program Support:		
Personal Services/Employee Benefist	25,651,800	29,757,379
Contractual Services	2,779,700	2,697,739
Other	161,194,320	173,480,702
Transfers	<u>9,787,000</u>	<u>9,787,000</u>
	<u>199,412,820</u>	<u>215,722,820</u>
TOTAL ANNUAL BUDGETED EXPENDITURES	<u><u>2,110,333,633</u></u>	<u><u>2,186,264,640</u></u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

AND DEBT SERVICE FUNDS

Current Year			
Actual Amounts (Modified Accrual)	Outstanding Encumbrances	Actual Amounts (Budgetary Basis)	Budget Positive (Negative)
23,954,663	-	23,954,663	39,337
461,789,902	113,009,394	574,799,296	447,682,038
<u>132,224,720</u>	<u>48,145,874</u>	<u>180,370,595</u>	<u>468,101,548</u>
617,969,285	161,155,268	779,124,554	915,822,922
91,858,646	-	91,858,646	1,527,654
49,667,716	17,987,637	67,655,353	6,149,368
<u>108,145,330</u>	<u>9,815,071</u>	<u>117,960,401</u>	<u>(9,557,078)</u>
249,671,692	27,802,708	277,474,400	(1,880,056)
28,784,397	-	28,784,397	972,982
2,382,730	234,323	2,617,052	80,687
197,780,696	611,126	198,391,822	(24,911,120)
<u>9,787,000</u>	<u>-</u>	<u>9,787,000</u>	<u>-</u>
<u>238,734,823</u>	<u>845,449</u>	<u>239,580,272</u>	<u>(23,857,452)</u>
<u><u>1,106,375,800</u></u>	<u><u>189,803,426</u></u>	<u><u>1,296,179,226</u></u>	<u><u>890,085,414</u></u>

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2007

	Local Government Road Fund	Traffic Safety Fund (SHARE Fund 20800)	State Aviation Fund (SHARE Fund 20500)	Motorcycle Training Fund (SHARE Fund 20600)
ASSETS:				
Cash and cash equivalents:				
Unrestricted	\$ 22,231,718	7,431,227	4,009,653	84,670
Restricted	-	-	-	-
Receivables:				
Taxes receivable, net	3,745,139	853,977	426,180	21,332
Severance tax bond proceeds receivable	243,842	-	-	-
Due from other funds	-	3,431,364	1,340,226	-
U.S. Department of Transportation, net (Note 6)	-	1,138,396	-	-
Interest receivable	300,000	21,782	-	-
Notes and loans receivable	-	-	-	-
Other receivables	-	15,857	204	2,724
TOTAL ASSETS	\$ 26,520,699	12,892,603	5,776,263	108,726
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 2,922,255	2,057,443	44,560	-
Due to other funds	1,826,039	4,150,413	174,703	-
Payable to other governments	1,169,464	-	3,275,868	-
Deferred revenue	-	-	-	-
Due to others - severance	-	-	-	-
Other accrued expenses	-	27,589	3,468	-
Other payables	-	-	-	-
TOTAL LIABILITIES	5,917,758	6,235,445	3,498,599	-
FUND BALANCES:				
Unreserved, reported in non-major:				
Special revenue funds	20,602,941	6,657,158	2,277,664	108,726
Capital projects funds	-	-	-	-
Debt service funds	-	-	-	-
TOTAL FUND BALANCES	20,602,941	6,657,158	2,277,664	108,726
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,520,699	12,892,603	5,776,263	108,726

See Independent Auditors' Report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Special Revenue Funds					
Driver Improvement Program Fund	DWI Prevention and Education Fund (SHARE Fund 20700)	Bond Project Fund (1993 Bonds) (Fund 39400)	Bond Project Fund (WIPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)	Bond Project Fund (2000 CHAT)
147,873	732,963	-	-	-	-
-	-	1,506,143	-	226,119	4,670
23,163	44,893	-	-	-	-
-	-	-	-	-	-
289,504	-	-	-	3,088,612	1,788,987
-	-	-	-	-	-
-	-	38,307	-	5,752	119
-	-	-	-	-	-
-	-	-	-	-	-
<u>460,540</u>	<u>777,856</u>	<u>1,544,450</u>	<u>-</u>	<u>3,320,483</u>	<u>1,793,776</u>
167,428	29,527	-	-	-	-
-	31,533	37,804	-	1,224,580	3,682,444
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>167,428</u>	<u>61,060</u>	<u>37,804</u>	<u>-</u>	<u>1,224,580</u>	<u>3,682,444</u>
293,112	716,796	1,506,646	-	2,095,903	(1,888,668)
-	-	-	-	-	-
-	-	-	-	-	-
<u>293,112</u>	<u>716,796</u>	<u>1,506,646</u>	<u>-</u>	<u>2,095,903</u>	<u>(1,888,668)</u>
<u>460,540</u>	<u>777,856</u>	<u>1,544,450</u>	<u>-</u>	<u>3,320,483</u>	<u>1,793,776</u>

AS OF JUNE 30, 2007

	Bond Project Fund (2001 CHAT)	Bond Project Fund (2002A CHAT)	Bond Project Fund (2002C HIF)	Bond Project Fund (2002D CHAT)
ASSETS:				
Cash and cash equivalents:				
Unrestricted	\$ -	-	-	-
Restricted	9,424,830	144,406	1,203,019	719,587
Receivables:				
Taxes receivable, net	-	-	100	-
Severance tax bond proceeds receivable	-	-	-	-
Due from other funds	-	-	-	-
U.S. Department of Transportation, net (Note 6)	-	-	-	-
Interest receivable	-	3,672	40,129	18,295
Notes and loans receivable	-	-	-	-
Other receivables	-	-	-	-
TOTAL ASSETS	\$ 9,424,830	148,078	1,243,248	737,882
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 207,277	(28,958)	50,534	-
Due to other funds	899,327	2,020,148	-	-
Payable to other governments	-	-	-	-
Deferred revenue	-	-	-	-
Due to others - severance	-	-	-	-
Other accrued expenses	-	-	-	-
Other payables	87,120	-	-	142,904
TOTAL LIABILITIES	1,193,724	1,991,190	50,534	142,904
FUND BALANCES:				
Unreserved, reported in non-major:				
Special revenue funds	8,231,106	(1,843,112)	1,192,714	594,978
Capital projects funds	-	-	-	-
Debt service funds	-	-	-	-
TOTAL FUND BALANCES	8,231,106	(1,843,112)	1,192,714	594,978
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,424,830	148,078	1,243,248	737,882

See Independent Auditors' Report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Special Revenue Funds

Bond Project Fund (2004 B/C GRIP)	Federal Planning and Development Fund	Bond GRIP Project Fund (2006A)	Bond GRIP Project Fund (2006B)	Bond GRIP Project Fund (2006C)	Bond GRIP Project Fund (2006D)
-	(2,589,726)	-	-	-	-
-	-	164,217,456	640,680	222,385,645	50,391,203
-	-	-	-	-	-
-	-	-	-	-	-
-	14,860	-	-	-	-
-	3,027,332	-	-	-	-
-	-	318	168	355	1,104
-	-	-	-	-	-
-	1,211,417	-	-	-	-
-	1,663,883	164,217,774	640,848	222,386,000	50,392,307
-	2,388,121	-	-	5,294,026	-
-	741,168	-	-	10,397,188	-
-	200	-	-	-	-
-	1,647,869	-	-	-	-
-	-	-	-	-	-
-	41,634	-	-	-	-
-	-	-	-	-	-
-	4,818,992	-	-	15,691,214	-
-	(3,155,109)	164,217,774	640,848	206,694,786	50,392,307
-	-	-	-	-	-
-	(3,155,109)	164,217,774	640,848	206,694,786	50,392,307
-	1,663,883	164,217,774	640,848	222,386,000	50,392,307

AS OF JUNE 30, 2007

		<u>Capital Project Funds</u>		
	<u>Total Special Revenue Funds</u>	<u>Capital Project Improvements Fund</u>	<u>Total Capital Project Funds</u>	<u>Debt Service (2001 CHAT)</u>
ASSETS:				
Cash and cash equivalents:				
Unrestricted	\$ 32,048,378	(2,578,049)	(2,578,049)	-
Restricted	450,863,758	-	-	1,306,887
Receivables:				
Taxes receivable, net	5,114,784	-	-	-
Severance tax bond proceeds receivable	243,842	-	-	-
Due from other funds	9,953,553	13,835,364	13,835,364	-
U.S. Department of Transportation, net (Note 6)	4,165,728	-	-	38,891
Interest receivable	430,001	-	-	-
Notes and loans receivable	-	-	-	-
Other receivables	<u>1,230,202</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>504,050,246</u>	<u>11,257,315</u>	<u>11,257,315</u>	<u>1,345,778</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 13,132,213	1,116,372	1,116,372	-
Due to other funds	25,185,347	10,624	10,624	-
Payable to other governments	4,445,532	-	-	-
Deferred revenue	1,647,869	-	-	-
Due to others - severance	-	-	-	-
Other accrued expenses	72,691	-	-	-
Other payables	<u>230,024</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	44,713,676	1,126,996	1,126,996	-
FUND BALANCES:				
Unreserved, reported in non-major:				
Special revenue funds	459,336,570	-	-	-
Capital projects funds	-	10,130,319	10,130,319	-
Debt service funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,345,778</u>
TOTAL FUND BALANCES	<u>459,336,570</u>	<u>10,130,319</u>	<u>10,130,319</u>	<u>1,345,778</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>504,050,246</u>	<u>11,257,315</u>	<u>11,257,315</u>	<u>1,345,778</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Debt Service Funds

Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	Debt Service (2002A CHAT)	Debt Service (2002B WIPP)
-	-	-	-	-	-
113,565	160,234	619,716	958,893	561,286	588,670
-	-	-	-	-	-
-	-	-	-	-	-
13,829	-	-	-	-	-
-	-	-	-	-	-
1,935	6,027	14,739	30,750	18,537	19,080
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>129,329</u>	<u>166,261</u>	<u>634,455</u>	<u>989,643</u>	<u>579,823</u>	<u>607,750</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>129,329</u>	<u>166,261</u>	<u>634,455</u>	<u>989,643</u>	<u>579,823</u>	<u>607,750</u>
<u>129,329</u>	<u>166,261</u>	<u>634,455</u>	<u>989,643</u>	<u>579,823</u>	<u>607,750</u>
<u>129,329</u>	<u>166,261</u>	<u>634,455</u>	<u>989,643</u>	<u>579,823</u>	<u>607,750</u>

AS OF JUNE 30, 2007

	Debt Service (2002C HIF)	Debt Service (2002D CHAT)	Debt Service (2004B/C GRIP)	Debt Service (2006A GRIP)
ASSETS:				
Cash and cash equivalents:				
Unrestricted	\$ -	-	-	-
Restricted	104,240	45,760	44,338,525	-
Receivables:				
Taxes receivable, net	-	-	-	-
Severance tax bond proceeds receivable	-	-	-	-
Due from other funds	-	-	-	-
U.S. Department of Transportation, net (Note 6)	-	-	106,100	-
Interest receivable	2,741	2,689	-	10,856
Notes and loans receivable	-	-	-	-
Other receivables	-	-	-	-
TOTAL ASSETS	\$ 106,981	48,449	44,444,625	10,856
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ -	-	-	-
Due to other funds	-	-	-	-
Payable to other governments	-	-	748,381	-
Deferred revenue	-	-	-	-
Due to others - severance	-	-	-	-
Other accrued expenses	-	-	-	-
Other payables	-	-	-	-
TOTAL LIABILITIES	-	-	748,381	-
FUND BALANCES:				
Unreserved, reported in non-major:				
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
Debt service funds	106,981	48,449	43,696,244	10,856
TOTAL FUND BALANCES	106,981	48,449	43,696,244	10,856
TOTAL LIABILITIES AND FUND BALANCES	\$ 106,981	48,449	44,444,625	10,856

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Debt Service Funds

Debt Service (2006B GRIP)	Debt Service (2006C GRIP)	Debt Service (2006D GRIP)	Debt Service (1993 Bonds)	Total Debt Service Funds	Total Governmental Funds
-	-	-	-	-	29,470,329
1,032,262	49,637	503,737	-	50,383,412	501,247,170
-	-	-	-	-	-
-	-	-	-	-	5,114,784
-	-	-	-	-	243,842
-	-	-	-	13,829	23,802,746
-	-	-	-	144,991	4,310,719
10,806	8,289	2,595	-	129,044	559,045
-	-	-	-	-	-
-	-	-	-	-	1,230,202
<u>1,043,068</u>	<u>57,926</u>	<u>506,332</u>	<u>-</u>	<u>50,671,276</u>	<u>565,978,837</u>
-	-	-	-	-	14,248,585
-	-	-	-	-	25,195,971
966,927	-	94,155	-	1,809,463	6,254,995
-	-	-	-	-	1,647,869
-	-	-	-	-	-
-	-	-	-	-	72,691
-	-	-	-	-	230,024
966,927	-	94,155	-	1,809,463	47,650,135
-	-	-	-	-	459,336,570
-	-	-	-	-	10,130,319
<u>76,141</u>	<u>57,926</u>	<u>412,177</u>	<u>-</u>	<u>48,861,813</u>	<u>48,861,813</u>
<u>76,141</u>	<u>57,926</u>	<u>412,177</u>	<u>-</u>	<u>48,861,813</u>	<u>518,328,702</u>
<u>1,043,068</u>	<u>57,926</u>	<u>506,332</u>	<u>-</u>	<u>50,671,276</u>	<u>565,978,837</u>

AS OF JUNE 30, 2007

	Local Government Road Fund	Traffic Safety Fund (SHARE Fund 20800)	State Aviation Fund (SHARE Fund 20500)	Motorcycle Training Fund (SHARE Fund 20600)	Driver Improvement Program Fund
REVENUES:					
User and fuel taxes	\$ 22,114,516	1,459,804	2,122,567	92,980	186,380
U.S. Department of Transportation	-	14,595,947	62,308	-	-
U.S. Department of Energy	-	-	-	-	-
N.M. Department of Human Services	-	-	-	-	-
N.M. Dept. of Finance and Administration	-	-	-	-	-
Fees and fines	-	-	-	-	-
Licenses and permits	-	528,251	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Investment earnings	-	-	-	-	-
Miscellaneous	-	-	152,586	-	-
DWI Interlock Device	-	-	-	-	-
Interest Revenue	<u>1,084,254</u>	<u>168,403</u>	<u>-</u>	<u>7,158</u>	<u>-</u>
TOTAL REVENUES	23,198,770	16,752,405	2,337,461	100,138	186,380
EXPENDITURES:					
Current:					
Operating costs	-	5,000	64,136	-	-
Personal services	-	94,784	-	-	-
Out-of-state travel	-	23,404	9,679	-	-
Grants and services	24,166,312	12,337,976	1,934,340	81,000	207,410
Travel	-	1,682	12,683	-	-
Maintenance and repairs	-	-	68,863	-	-
Supplies	-	13,325	24,507	-	-
Contractual services	-	526,389	29,735	-	-
Other Costs	-	-	-	-	-
Employee Benefits	-	44,229	322	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Debt refunding costs	-	-	-	-	-
Debt issuance cost	-	-	-	-	-
TOTAL EXPENDITURES	<u>24,166,312</u>	<u>13,046,789</u>	<u>2,144,265</u>	<u>81,000</u>	<u>207,410</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(967,542)	3,705,616	193,196	19,138	(21,030)
OTHER FINANCING SOURCES (USES):					
Bond Proceeds	-	-	-	-	-
Bond Premiums	-	-	-	-	-
Bond Discounts	-	-	-	-	-
Transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
NET CHANGES IN FUND BALANCES	(967,542)	3,705,616	193,196	19,138	(21,030)
FUND BALANCES, June 30, 2006	21,570,483	2,951,542	2,084,468	89,588	314,142
RESTATEMENT (NOTE 22)	-	-	-	-	-
FUND BALANCES, June 30, 2006	<u>21,570,483</u>	<u>2,951,542</u>	<u>2,084,468</u>	<u>89,588</u>	<u>314,142</u>
FUND BALANCES, June 30, 2007	\$ <u>20,602,941</u>	<u>6,657,158</u>	<u>2,277,664</u>	<u>108,726</u>	<u>293,112</u>

See Independent Auditors' Report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Special Revenue Funds							
DWI Prevention and Education Fund (SHARE Fund 20700)	Bond Project Fund (1993 Bonds) (Fund 39400)	Bond Project Fund (WIPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)	Bond Project Fund (2000 CHAT)	Bond Project Fund (2001 CHAT)	Bond Project Fund (2002A CHAT)	Bond Project Fund (2002C HIF)
282,454	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	19,184	-	-	-	-	-
-	-	-	-	-	-	-	-
-	74,408	-	11,172	231	14,536	7,133	69,051
282,454	74,408	19,184	11,172	231	14,536	7,133	69,051
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
75,579	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
75,579	-	-	-	-	-	-	-
206,875	74,408	19,184	11,172	231	14,536	7,133	69,051
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
206,875	74,408	19,184	11,172	231	14,536	7,133	69,051
509,921	1,432,238	(19,184)	2,084,731	(1,888,899)	8,216,570	(1,850,245)	1,123,663
-	-	-	-	-	-	-	-
509,921	1,432,238	(19,184)	2,084,731	(1,888,899)	8,216,570	(1,850,245)	1,123,663
716,796	1,506,646	-	2,095,903	(1,888,668)	8,231,106	(1,843,112)	1,122,714

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AS OF JUNE 30, 2007

Special Revenue Funds

	Bond Project Fund (2002D CHAT)	Bond Project Fund (2004 B/C GRIP)	Federal Planning and Development Fund	Bond GRIP Project Fund (2006A)	Bond GRIP Project Fund (2006B)
REVENUES:					
User and fuel taxes	\$ -	-	-	-	-
U.S. Department of Transportation	-	-	14,009,220	-	-
U.S. Department of Energy	-	-	-	-	-
N.M. Department of Human Services	-	-	-	-	-
N.M. Dept. of Finance and Administration	-	-	-	-	-
Fees and fines	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	1,194,837	-	-
Investment earnings	-	-	-	-	-
Miscellaneous	-	-	-	-	-
DW1 Interlock Device	-	-	-	-	-
Interest Revenue	35,265	-	50	4,455,188	620,347
TOTAL REVENUES	35,265	-	15,204,107	4,455,188	620,347
EXPENDITURES:					
Current:					
Operating costs	-	-	2,021	-	-
Personal services	-	-	165,767	-	-
Out-of-state travel	-	-	-	-	-
Grants and services	-	-	16,489,349	-	-
Travel	-	-	228,651	-	-
Maintenance and repairs	-	-	-	-	-
Supplies	-	-	1,195	-	-
Contractual services	-	-	1,380,822	-	-
Other Costs	-	-	1,672	-	-
Employee Benefits	-	-	54,122	-	-
Capital outlay	-	-	-	-	31,377,319
Debt service:					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Debt refunding costs	-	-	-	-	330,195
Debt issuance cost	-	-	-	321,813	124,960
TOTAL EXPENDITURES	-	-	18,523,599	321,813	31,832,474
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	35,265	-	(3,119,492)	4,133,375	(31,212,127)
OTHER FINANCING SOURCES (USES):					
Bond Proceeds	-	-	-	150,000,000	40,085,000
Bond Premiums	-	-	-	10,886,296	1,712,863
Bond Discounts	-	-	-	(801,897)	(244,888)
Transfers out	-	-	-	-	(9,700,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	160,084,399	31,852,975
NET CHANGES IN FUND BALANCES	35,265	-	(3,119,492)	164,217,774	640,848
FUND BALANCES, June 30, 2006	(241,478)	43,140,347	(35,617)	-	-
RESTATEMENT (NOTE 22)	801,191	(43,140,347)	-	-	-
FUND BALANCES, June 30, 2006	559,713	-	(35,617)	-	-
FUND BALANCES, June 30, 2007	\$ 594,978	-	(3,155,109)	164,217,774	640,848

See Independent Auditors' Report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Bond GRIP Project Fund (2006C)	Bond GRIP Project Fund (2006D)	Total Special Revenue Funds	Capital Project Funds		Debt Service Funds		
			Capital Project Improvements Fund	Total Capital Projects Funds	Debt Service (2001 CHAT)	Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)
-	-	26,258,701	-	-	-	-	-
-	-	28,667,475	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	528,251	-	-	-	-	-
-	-	1,194,837	-	-	-	-	-
-	-	171,770	-	-	-	-	-
6,090,351	2,223,789	14,861,336	-	-	512,080	25,124	20,262
6,090,351	2,223,789	71,682,370	-	-	512,080	25,124	20,262
-	-	71,157	-	-	-	-	-
-	-	260,551	-	-	-	-	-
-	-	33,083	-	-	-	-	-
-	-	55,291,966	-	-	-	-	-
-	-	243,016	-	-	-	-	-
-	-	68,863	-	-	-	-	-
-	-	39,027	-	-	-	-	-
-	-	1,936,946	-	-	-	-	-
-	-	1,672	-	-	-	-	-
-	-	98,673	-	-	-	-	-
17,807,066	-	49,184,385	3,694,386	3,694,386	-	-	-
-	-	-	-	-	16,730,000	-	4,200,000
-	-	-	-	-	6,344,648	1,751,613	910,200
-	-	330,195	-	-	-	-	-
463,744	137,275	1,047,792	-	-	-	-	-
18,270,810	137,275	108,607,326	3,694,386	3,694,386	23,074,648	-1,751,613	5,110,200
(12,180,459)	2,086,514	(36,924,956)	(3,694,386)	(3,694,386)	(22,562,568)	(1,726,489)	(5,089,938)
220,000,000	50,400,000	460,485,000	-	-	-	-	-
-	-	12,599,159	-	-	-	-	-
(1,124,755)	(262,725)	(2,434,265)	-	-	-	-	-
-	(1,831,482)	(11,531,482)	-	-	23,074,648	1,751,613	5,110,200
218,875,245	48,305,793	459,118,412	-	-	23,074,648	1,751,613	5,110,200
206,694,786	50,392,307	422,193,456	(3,694,386)	(3,694,386)	512,080	25,124	20,262
-	-	79,482,270	13,824,705	13,824,705	833,698	104,205	145,999
-	-	(42,339,156)	-	-	-	-	-
-	-	37,143,114	13,824,705	13,824,705	833,698	104,205	145,999
206,694,786	50,392,307	459,336,570	10,130,319	10,130,319	1,345,778	129,329	166,261

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AS OF JUNE 30, 2007

	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	Debt Service (2002A CHAT)	Debt Service (2002B WIPP)	Debt Service (2002C HIF)	Debt Service (2002D CHAT)
REVENUES:						
User and fuel taxes	\$ -	-	-	-	-	-
U.S. Department of Transportation	-	-	-	-	-	-
U.S. Department of Energy	-	-	-	-	-	-
N.M. Department of Human Services	-	-	-	-	-	-
N.M. Dept. of Finance and Administration	-	-	-	-	-	-
Fees and fines	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
DWI Interlock Device	-	-	-	-	-	-
Interest Revenue	213,533	368,596	228,508	231,123	24,035	32,883
TOTAL REVENUES	213,533	368,596	228,508	231,123	24,035	32,883
EXPENDITURES:						
Current:						
Operating costs	-	-	-	-	-	-
Personal services	-	-	-	-	-	-
Out-of-state travel	-	-	-	-	-	-
Grants and services	-	-	-	-	-	-
Travel	-	-	-	-	-	-
Maintenance and repairs	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-
Other Costs	-	-	-	-	-	-
Employee Benefits	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	10,885,000	12,340,000	7,540,000	8,115,000	-	1,200,000
Interest and other charges	1,334,906	3,138,375	2,378,100	1,304,250	1,709,524	254,825
Interest and other charges	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
TOTAL EXPENDITURES	12,219,906	15,478,375	9,918,100	9,419,250	1,709,524	1,454,825
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(12,006,373)	(15,109,779)	(9,689,592)	(9,188,127)	(1,685,489)	(1,421,942)
OTHER FINANCING SOURCES (USES):						
Bond Proceeds	-	-	-	-	-	-
Bond Premiums	-	-	-	-	-	-
Bond Discounts	-	-	-	-	-	-
Transfers out	12,219,906	15,478,375	9,918,100	9,419,250	1,709,524	1,454,825
(USES)	12,219,906	15,478,375	9,918,100	9,419,250	1,709,524	1,454,825
NET CHANGES IN FUND BALANCES	213,533	368,596	228,508	231,123	24,035	32,883
FUND BALANCES, June 30, 2006	420,922	621,047	351,315	376,627	82,946	15,566
RESTATEMENT (NOTE 22)	-	-	-	-	-	-
FUND BALANCES, June 30, 2006	420,922	621,047	351,315	376,627	82,946	15,566
FUND BALANCES, June 30, 2007	\$ 634,455	989,643	579,823	607,750	106,981	48,449

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 Debt Service Funds	Total-Other Governmental Funds
Debt Service (2004B/C GRIP)	Debt Service (2006A GRIP)	Debt Service (2006B GRIP)	Debt Service (2006C GRIP)	Debt Service (2006D GRIP)	Debt Service (1993 Bonds)			
-	-	-	-	-	-	-	26,258,701	
-	-	-	-	-	-	-	28,667,475	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	528,251	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	1,194,837	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	171,770	
-	-	-	-	-	-	-	-	
9,676,317	75,180	76,145	3,791,577	9,550	-	15,284,913	30,146,249	
9,676,317	75,180	76,145	3,791,577	9,550	-	15,284,913	86,967,283	
-	-	-	-	-	-	-	71,157	
-	-	-	-	-	-	-	260,551	
-	-	-	-	-	-	-	33,083	
5,769	-	-	-	-	-	5,769	55,297,735	
-	-	-	-	-	-	-	243,016	
-	-	-	-	-	-	-	68,863	
-	-	-	-	-	-	-	39,027	
-	-	-	-	-	-	-	1,936,946	
-	-	-	-	-	-	-	1,672	
-	-	-	-	-	-	-	98,673	
-	-	-	-	-	-	-	52,878,771	
-	-	-	-	-	-	-	-	
19,985,000	-	2,350,000	-	-	-	83,345,000	83,345,000	
23,853,017	5,147,689	1,217,515	11,181,278	1,825,768	-	62,351,708	62,351,708	
-	-	-	-	-	-	-	330,195	
-	-	-	-	-	-	-	1,047,792	
43,843,786	5,147,689	3,567,515	11,181,278	1,825,768	-	145,702,477	258,004,189	
(34,167,469)	(5,072,509)	(3,491,370)	(7,389,701)	(1,816,218)	-	(130,417,564)	(171,036,906)	
-	-	-	-	-	-	-	460,485,000	
-	-	-	-	-	-	-	12,599,159	
-	-	-	-	-	-	-	(2,434,265)	
34,723,366	5,083,365	3,567,511	7,447,627	2,228,395	-	133,186,705	121,655,223	
34,723,366	5,083,365	3,567,511	7,447,627	2,228,395	-	133,186,705	592,305,117	
555,897	10,856	76,141	57,926	412,177	-	2,769,141	421,268,211	
-	-	-	-	-	428	2,952,753	96,259,728	
43,140,347	-	-	-	-	(428)	43,139,919	800,763	
43,140,347	-	-	-	-	-	46,092,672	97,060,491	
43,696,244	10,856	76,141	57,926	412,177	-	48,861,813	518,328,702	

See Independent Auditors' Report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Non-GAAP Basis)

YEAR ENDED JUNE 30, 2007

STATE ROAD FUND

	Budgeted Amounts		Current Year	
	Original	Final	Actual Amounts (Modified Accrual)	Budget Positive (Negative)
REVENUES:				
Federal funds	\$ 356,850,600	384,250,600	237,260,454	(146,990,146)
Other state funds	408,440,276	428,391,558	438,629,370	10,237,812
State General Fund	300,000	300,000	96,510,052	(100,941,490)
Fund balance carryforward	<u>197,451,542</u>	<u>197,451,542</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	\$ <u>963,042,418</u>	<u>1,010,393,700</u>	<u>772,399,876</u>	<u>(237,693,824)</u>
EXPENDITURES - current and capital outlay:				
Programs and Infrastructure				
Personal Services/Employee Benefits	\$ 22,720,400	23,629,000	23,595,439	33,561
Contractual Services	554,105,849	580,993,849	214,598,143	366,395,706
Other	<u>138,880,156</u>	<u>152,116,639</u>	<u>66,904,355</u>	<u>85,212,284</u>
	715,706,405	756,739,488	305,097,937	451,641,551
Transportation and Highway Ops:				
Personal Services/Employee Benefits	87,586,300	93,386,300	91,869,305	1,516,995
Contractual Services	71,055,638	73,804,721	49,667,716	24,137,005
Other	<u>77,291,482</u>	<u>85,670,323</u>	<u>83,968,359</u>	<u>1,701,964</u>
	235,933,420	252,861,344	225,505,380	27,355,964
Business/Program Support:				
Personal Services/Employee Benefits	25,651,800	29,757,379	28,784,397	972,982
Contractual Services	2,779,700	2,697,739	2,382,730	315,009
Other	3,221,000	3,221,000	14,111,460	(10,890,460)
Transfers out	<u>170,221,832</u>	<u>170,221,832</u>	<u>170,221,832</u>	<u>-</u>
	<u>201,874,332</u>	<u>205,897,950</u>	<u>215,500,419</u>	<u>(9,602,469)</u>
TOTAL ANNUAL BUDGETED EXPENDITURES	\$ <u>1,153,514,157</u>	<u>1,215,498,782</u>	<u>746,103,736</u>	<u>469,395,046</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Non-GAAP Basis) - continued

YEAR ENDED JUNE 30, 2007

BOND PROJECT FUND 2004A GRIP

	Budgeted Amounts		Current Year	
	Original	Final	Actual Amounts (Modified Accrual)	Budget Positive (Negative)
REVENUES:				
Federal funds	\$ -	-	-	-
Other state funds	-	-	14,463,283	14,463,283
State General Fund	-	-	-	-
Fund balance carryforward	<u>(348,536,090)</u>	<u>(348,536,090)</u>	-	-
TOTAL REVENUES	\$ <u>(348,536,090)</u>	<u>(348,536,090)</u>	<u>14,463,283</u>	<u>14,463,283</u>
EXPENDITURES - current and capital outlay:				
Programs and Infrastructure				
Personal Services/Employee Benefits	\$ -	-	-	-
Contractual Services	-	-	-	-
Other	<u>349,012,220</u>	<u>349,012,220</u>	<u>224,735,948</u>	<u>124,276,272</u>
	349,012,220	349,012,220	224,735,948	124,276,272
Transportation and Highway Ops:				
Personal Services/Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-	-
Business/Program Support:				
Personal Services/Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Transfers in	<u>(476,130)</u>	<u>(476,130)</u>	<u>(476,130)</u>	<u>-</u>
	<u>(476,130)</u>	<u>(476,130)</u>	<u>(476,130)</u>	<u>-</u>
TOTAL ANNUAL BUDGETED EXPENDITURES	\$ <u>348,536,090</u>	<u>348,536,090</u>	<u>224,259,818</u>	<u>124,276,272</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Revenues and Expenditures -
Other Governmental Funds -
Budget and Actual (Non-GAAP Basis)

YEAR ENDED JUNE 30, 2007

DEBT SERVICE FUND 2004A GRIP

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Over (Under)
			(Modified Accrual)	
REVENUES:				
Federal funds	\$ -	-	-	-
Other state funds	-	-	409,914	409,914
State General Fund	-	-	-	-
TOTAL REVENUES	\$ -	-	409,914	409,914
EXPENDITURES - current and capital outlay:				
Programs and Infrastructure				
Personal Services/Employee Benefits	\$ -	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Transportation and Highway Ops:				
Personal Services/Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Business/Program Support:				
Personal Services/Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	12,270,850	24,557,232	37,966,759	(13,409,527)
Transfers in	(38,303,479)	(38,303,479)	(38,303,479)	-
	(26,032,629)	(13,746,247)	(336,720)	(13,409,527)
TOTAL ANNUAL BUDGETED EXPENDITURES	\$ (26,032,629)	(13,746,247)	(336,720)	(13,409,527)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Statement of Revenues and Expenditures -
Other Governmental Funds -
Budget and Actual (Non-GAAP Basis) - continued**

YEAR ENDED JUNE 30, 2007

OTHER GOVERNMENTAL FUNDS

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Over (Under)
			(Modified Accrual)	
REVENUES:				
Federal funds	\$ 4,892,959	33,162,674	28,667,475	(4,495,199)
Other state funds	5,074,124	5,074,134	58,299,808	53,225,674
State General Fund	-	-	-	-
Fund balance carryover	<u>97,060,491</u>	<u>97,060,491</u>	<u>-</u>	<u>97,060,491</u>
TOTAL REVENUES	\$ <u>107,027,574</u>	<u>135,297,299</u>	<u>86,967,283</u>	<u>145,790,966</u>
EXPENDITURES - current and capital outlay:				
Programs and Infrastructure				
Personal Services/Employee Benefits	\$ 365,000	365,000	359,224	5,776
Contractual Services	439,827,485	441,487,485	1,936,946	439,550,539
Other	<u>147,343,283</u>	<u>147,343,283</u>	<u>85,839,230</u>	<u>61,504,053</u>
	587,535,768	589,195,768	88,135,400	501,060,368
Transportation and Highway Ops:				
Personal Services/Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	<u>22,733,000</u>	<u>22,733,000</u>	<u>24,166,312</u>	<u>(1,433,312)</u>
	22,733,000	22,733,000	24,166,312	(1,433,312)
Business/Program Support:				
Personal Services/Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	145,702,470	145,702,470	145,702,477	(7)
Transfers in	(121,655,223)	(121,655,223)	(121,655,223)	-
Bond proceeds	<u>(460,485,002)</u>	<u>(460,485,002)</u>	<u>(460,485,002)</u>	<u>-</u>
	<u>(436,437,755)</u>	<u>(436,437,755)</u>	<u>(436,437,748)</u>	<u>(7)</u>
TOTAL ANNUAL BUDGETED EXPENDITURES	\$ <u>173,831,013</u>	<u>175,491,013</u>	<u>(324,136,036)</u>	<u>499,627,049</u>

AS OF JUNE 30, 2007

	Budgeted Amounts		Current Year Expenditures
	Original	Final	
Expenditures for 2004 multi-year projects Capital outlay	\$ 2,000,000	2,000,000	-
Expenditures for 2001 multi-year projects Capital outlay	2,238,000	2,197,574	-
Expenditures for 2000 multi-year projects Capital outlay	2,094,300	2,828,452	-
Expenditures for 2006 multi-year projects Capital outlay	15,250,000	16,285,387	3,694,386
Expenditures for 2007 multi-year projects Capital outlay	<u>2,750,000</u>	<u>2,750,000</u>	<u>-</u>
TOTAL EXPENDITURES	\$ <u>24,332,300</u>	<u>26,061,413</u>	<u>3,694,386</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

CAPITAL PROJECTS FUND

<u>Life-to-Date Outstanding Encumbrances</u>	<u>Total Actual</u>	<u>Prior Year Actual</u>	<u>Total Expenditures</u>	<u>Variance From Final Budget Over (Under)</u>
-	-	1,804,124	1,804,124	195,876
-	-	17,350	17,350	2,180,224
-	-	185,364	185,364	2,643,088
9,419,877	13,114,263	1,000,000	14,114,263	2,171,124
-	-	-	-	2,750,000
<u>9,419,877</u>	<u>13,114,263</u>	<u>3,006,838</u>	<u>16,121,101</u>	<u>9,940,312</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Revenues and Expenditures -
State Infrastructure Bank - Budget and Actual

YEAR ENDED JUNE 30, 2007

		STATE INFRASTRUCTURE BANK			
		Budgeted Amounts		Actual	Variance
		Original	Final	Amounts	Over (Under)
		(Budgetary Basis)			
REVENUES:					
Interest	\$	-	-	733,404	733,404
TOTAL REVENUES		-	-	733,404	733,404
REBUDGETED CASH		1,940,000	3,600,000	3,600,000	-
TOTAL BUDGETED REVENUES	\$	<u>1,940,000</u>	<u>3,600,000</u>	<u>4,333,404</u>	<u>733,404</u>
EXPENDITURES:					
Contractual services	\$	1,940,000	3,600,000	886,598	(2,713,402)
TOTAL BUDGETED EXPENDITURES	\$	<u>1,940,000</u>	<u>3,600,000</u>	<u>886,598</u>	<u>(2,713,402)</u>

AS OF JUNE 30, 2007

<u>Chapter</u>	<u>Laws</u>	<u>Bonds Appropriated</u>	<u>Bonds Sold</u>	<u>Amounts AIPP</u>	<u>Funds Reauthorized</u>
148	1994	\$ 50,000	50,000	-	-
2	1999	5,161,415	4,719,721	-	-
2/23	2000	7,518,079	7,193,284	-	-
110	2002	9,492,863	9,491,910	-	-
429	2003	7,663,595	7,612,100	(1,250)	-
110/429	2003	120,000	120,000	-	-
126	2004	23,518,750	23,518,750	-	-
347	2005	14,157,000	14,157,000	-	-
347/111	2006	14,429,900	14,429,900	-	-
111	2006	3,763,000	3,763,000	-	-
111/42	2006	20,685,000	20,685,000	-	-
42	2007	<u>3,570,000</u>	<u>3,570,000</u>	-	-
		\$ <u>110,129,602</u>	<u>109,310,665</u>	<u>(1,250)</u>	<u>-</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Severance Tax Bonds

<u>Funds Reverted</u>	<u>Bond Balance After Reauthorization</u>	<u>Amount Received</u>	<u>Expended To Date</u>	<u>Balance Available</u>
-	50,000	49,950	49,950	50
(441,694)	4,719,721	4,667,173	4,667,173	52,548
(324,795)	7,193,284	7,025,893	7,025,893	167,391
(953)	9,491,910	7,386,575	7,386,575	2,105,335
(51,495)	7,612,100	5,326,058	5,326,058	2,286,042
-	120,000	70,000	70,000	50,000
-	23,518,750	13,066,475	13,066,475	10,452,275
-	14,157,000	6,365,334	6,365,334	7,791,666
-	14,429,900	948,024	948,024	13,481,876
-	3,763,000	-	-	3,763,000
-	20,685,000	-	-	20,685,000
-	<u>3,570,000</u>	-	-	<u>3,570,000</u>
<u>(818,937)</u>	<u>109,310,665</u>	<u>44,905,482</u>	<u>44,905,482</u>	<u>64,405,183</u>

AS OF JUNE 30, 2007

	Appropriation Amount	Expenditures Inception to June 30, 2007
<u>Special Revenue Funds</u>		
Laws of 1991, Chapter 10	\$ 250,000	-
* Laws of 1994, State House Memorial 110	11,505,000	9,386,782
* Laws of 1994, Senate Memorial 130	11,278,000	9,179,460
Laws of 2000, Chapter 23	2,577,500	2,117,156
Laws of 2003, Chapter 385	975,500	407,460
Laws of 2003, Chapter 429	4,631,200	659,981
Laws of 2004, Chapter 126	4,830,728	925,134
Laws of 2004, Chapter 126	<u>5,812,930</u>	<u>315,676</u>
	41,860,858	22,991,649
<u>Capital Projects Funds</u>		
Laws of 1999, Chapter 2	2,943,000	2,820,052
Laws of 2004, Chapter 126	<u>2,000,000</u>	<u>1,804,124</u>
	<u>4,943,000</u>	<u>4,624,176</u>
Total all fund types	\$ <u>46,803,858</u>	<u>27,615,825</u>

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Special Appropriations

Encumbrance Balance as of June 30, 2007	Reappropriation Amount	Reversion Amount	Balance as of June 30, 2007
-	-	-	250,000
-	-	2,118,218	-
-	-	2,098,540	-
289,398	-	35,370	135,576
550,000	-	-	18,040
3,619,701	-	47,563	303,955
3,627,343	-	-	278,251
<u>5,397,253</u>	<u>-</u>	<u>-</u>	<u>100,001</u>
13,483,695	-	4,299,691	1,085,823
2,129	-	114,548	6,271
<u>-</u>	<u>-</u>	<u>-</u>	<u>195,876</u>
<u>2,129</u>	<u>-</u>	<u>114,548</u>	<u>202,147</u>
<u><u>13,485,824</u></u>	<u><u>-</u></u>	<u><u>4,414,239</u></u>	<u><u>1,287,970</u></u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Supplemental Schedule of Special Appropriations

- **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 \$2,577,500 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 \$975,500 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 \$2,943,000 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 2004, Chapter 126, the Department was appropriated \$12,643,658 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.

SUPPLEMENTAL SCHEDULES

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Individual Bank Accounts

AS OF JUNE 30, 2007

Account Title	Fund Number	Reconciled Balance
Cash on Deposit with State Treasurer:		
Road Fund - General	20100	\$ 20,494,395
Road Fund - Payroll	78800	292,179
Highway Department - WIPP Project	43100	30,405,197
Rubberized Asphalt	82000	1,774,592
Highway Infrastructure Fund	20200	8,538,403
Local Government Fund	20300	22,231,718
Traffic Safety	20800	1,376,143
Aviation Fund	20500	4,009,653
Motorcycle Training Fund	20600	84,670
DWI Prevention Fund	20700	732,963
DWI Interlock Fund	82600	1,211,260
CHAT-2001A Bond Project-Hyway	00600	9,424,830
1993 Bond Projects	39400	1,506,143
State Infrastructure Bank	89300	12,497,624
1999 CHAT Bond Projects	43000	226,119
1998A CHAT Debt Service	54800	130,618
1999 CHAT Debt Service	43400	126,759
2000A CHAT Bond Projects	34500	4,670
2000A CHAT Debt Service	43200	188,274
2001A CHAT Debt Service	00700	232,648
2002A CHAT Bond Projects	36800	144,406
Cash Debt Service-CHAT-2002A	54700	77,098
Cash Debt Service-WIPP-2002B	75000	102,325
2002C HIF Bond Projects	36100	1,203,019
Cash Debt Service-HIF-2002C	36300	57,409
Cash-Bond Proj.-CHAT-2002D	11500	719,587
Cash-Debt Service-CHAT-2002D	18700	11,817
2006B GRIP Project Fund	10230	(13,377,319)
2006C GRIP Project Fund	10250	(2,115,852)
2004 Revenue and Acq Acct	20400	18,539,014
WIPP Bond Project Fund	00400	-
Federal Traffic Safety Fund	10010	4,843,824
Driver Improvement Program	10020	147,873
Federal Mass Transit Fund	10030	(2,838,771)
Inventories	10040	(19,609,034)
Capital projects	10050	(2,578,049)
Severance Tax Multiyear	10060	807,800
General Fund Multiyear	10070	<u>44,422,729</u>
Total Cash on Deposit with State Treasurer		\$ <u>146,046,734</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Individual Bank Accounts - continued

AS OF JUNE 30, 2007

<u>Account Title</u>	<u>Reconciled Balance</u>
Bond proceeds in money market mutual funds:	
Bond and loan proceeds in money market mutual funds	\$ 691,710,680
Wells Fargo checking account	249,045
Petty cash checking accounts:	
Petty Cash Funds:	
District 1	400
District 2	400
District 3	400
District 4	400
District 5	400
District 6	400
General Office (Santa Fe)	<u>200</u>
Total petty cash checking accounts	<u>2,600</u>
Total cash	838,009,059
Less unrestricted	<u>79,766,025</u>
Restricted	\$ <u><u>758,243,034</u></u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of
State Road Fund User and Fuel Taxes

YEAR ENDED JUNE 30, 2007

Gasoline Excise Taxes	\$	110,339,598
Motor Vehicle Registration Fees		73,614,705
Special Fuel Excise Taxes		101,372,807
Vehicle Transaction Fees		4,844,447
Drivers License Fees		4,328,644
Trip (Mileage) Tax		7,556,992
Weight/Distance Taxes		<u>92,955,175</u>
Subtotal Pledged Revenues		395,012,368
Miscellaneous Fees		<u>5,615,276</u>
	\$	<u>400,627,644</u>

AS OF JUNE 30, 2007

	<u>1998B-WIPP</u>	<u>1998-CHAT</u>	<u>1999-CHAT</u>	<u>2000-CHAT</u>	<u>2001-CHAT</u>
Gasoline Excise Taxes	\$ 110,339,598	110,339,598	110,339,598	110,339,598	110,339,598
Motor Vehicle Registration Fees	73,614,705	73,614,705	73,614,705	73,614,705	73,614,705
Special Fuel Excise Taxes	101,372,807	101,372,807	101,372,807	101,372,807	101,372,807
Vehicle Transaction Fees	4,844,447	4,844,447	4,844,447	4,844,447	4,844,447
Driver's License Fees	4,328,644	4,328,644	4,328,644	4,328,644	4,328,644
Oversize/Oversight Permit Fees	-	-	-	-	-
Public Regulation Commission Fees	-	-	-	-	-
Trip (Mileage) Tax	7,556,992	7,556,992	7,556,992	7,556,992	7,556,992
Weight/Distance Taxes	92,955,175	92,955,175	92,955,175	92,955,175	92,955,175
Leased Vehicle Gross Receipts Taxes	-	-	-	-	-
Tire Recycling Fees	-	-	-	-	-
FHWA Revenues	-	-	-	-	-
SUBTOTAL	395,012,368	395,012,368	395,012,368	395,012,368	395,012,368
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>
TOTAL PLEDGED REVENUES RECEIVED	\$ <u>396,250,892</u>	<u>396,250,892</u>	<u>396,250,892</u>	<u>396,250,892</u>	<u>396,250,892</u>
	<u>1998B-WIPP</u>	<u>1998-CHAT</u>	<u>1999-CHAT</u>	<u>2000-CHAT</u>	<u>2001-CHAT</u>
Debt Service Principal Expenditures	\$ -	4,200,000	10,885,000	12,340,000	7,540,000
Debt Service Interest Expenditures	<u>1,751,613</u>	<u>910,200</u>	<u>1,334,906</u>	<u>3,138,375</u>	<u>2,378,100</u>
TOTAL DEBT SERVICE	<u>1,751,613</u>	<u>5,110,200</u>	<u>12,219,906</u>	<u>15,478,375</u>	<u>9,918,100</u>
DEBT SERVICE COVERAGE	<u>226.22</u>	<u>77.54</u>	<u>32.43</u>	<u>25.60</u>	<u>39.95</u>

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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>2004C-GRIP</u>
110,339,598	110,339,598	110,339,598	110,339,598	110,339,598	110,339,598
73,614,705	73,614,705	73,614,705	73,614,705	73,614,705	73,614,705
101,372,807	101,372,807	101,372,807	101,372,807	101,372,807	101,372,807
4,844,447	4,844,447	4,844,447	4,844,447	4,844,447	4,844,447
4,328,644	4,328,644	4,328,644	4,328,644	4,328,644	4,328,644
-	-	-	-	-	-
-	-	-	-	-	-
7,556,992	7,556,992	7,556,992	7,556,992	7,556,992	7,556,992
92,955,175	92,955,175	92,955,175	92,955,175	92,955,175	92,955,175
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
395,012,368	395,012,368	395,012,368	395,012,368	395,012,368	395,012,368
<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>1,238,524</u>
<u>396,250,892</u>	<u>396,250,892</u>	<u>396,250,892</u>	<u>396,250,892</u>	<u>396,250,892</u>	<u>396,250,892</u>
<u>2002A-CHAT</u>	<u>2002-HIF</u>	<u>2002B-WIPP</u>	<u>2002D-CHAT</u>	<u>2004A-GRIP</u>	<u>2004C-GRIP</u>
7,540,000	-	8,115,000	1,200,000	-	19,985,000
<u>2,378,100</u>	<u>1,709,524</u>	<u>1,304,250</u>	<u>254,825</u>	<u>36,216,759</u>	<u>23,853,017</u>
<u>9,918,100</u>	<u>1,709,524</u>	<u>9,419,250</u>	<u>1,454,825</u>	<u>36,216,759</u>	<u>43,838,017</u>
<u>39.95</u>	<u>231.79</u>	<u>42.07</u>	<u>272.37</u>	<u>10.94</u>	<u>9.04</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Pledged Collateral

YEAR ENDED JUNE 30, 2007

	<u>Wells Fargo</u>
Deposits in bank or savings and loan:	
Bank deposits	\$ 249,045
Less FDIC or FSLIC coverage	<u>100,000</u>
Total uninsured public funds	<u>149,045</u>
Collateral requirement @ 50%	74,523
Collateral requirement @ 102%	<u>-</u>
Total required collateralization	<u>74,523</u>
Pledges and securities:	
FNCL 31368HVG5, 7.5%, DUE 1/1/09	1,414
FNCL 31371EOY9, 7.5%, DUE 5/1/24	582
FNCL 311410M4E7, 6.0%, due 06/01/2036	98,923
FNCL 31407HQE9, 6.0%, due 02/01/2036	625,544
FNCL 3141410M4E7, 6.0%, due 06/01/2036	2,328,292
FNCL 36202DPS4, 6.0%, due 05/01/2036	3,481,638
GNSF 36225BMH8, 6.00%, due 03/15/2031	28,590
GNSF, 36225BM39, 6.00%, due 4/15/2031	50,710
GNSF, 36225BN95, 6.00%, due 7/15/2031	<u>12,851</u>
Total pledged securities	<u>6,628,543</u>
(Over) under pledged	\$ <u><u>(6,554,021)</u></u>

Safekeeping locations for the above securities are as follows:

Wells Fargo: Wells Fargo Brokerage Services (Minneapolis, MN)

First State Bank: Federal Home Loan Bank of Dallas, Texas (Dallas, TX)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Expenditures of Federal Awards

YEAR ENDED JUNE 30, 2007

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Direct Assistance Programs:		
U.S. Department of Energy:		
Waste Isolation Pilot Plant 2004	5 81.106	\$ <u>8,796,432</u>
Total U.S. Department of Energy		8,796,432
U.S. Department of Transportation:		
Federal Highway Administration highway research, planning and construction (FHWA):		
FHWA	20.205	245,335,717
National Highway Traffic Safety Administration (NHTSA):		
Highway Safety Grant	20.600	6,262,475
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	346,779
Occupant Protection Program	20.602	270,663
Safety Incentive Grant for Use of Seatbelts	20.604	84,847
Vehicles by Intoxicated Persons	20.605	32,174
Section 164 Transfer Funds	20.608	6,912,678
Safety Belt Performance Grants	20.609	499,648
Safety Information Improvement Grants	20.610	<u>186,683</u>
		14,595,947
Federal Aviation Division:		
State Planning	20.106	62,308
Federal Transit Administration (FTA):		
Capital Program Grants and Loans	20.500	<u>14,009,220</u>
Total U.S. Department of Transportation		<u>274,003,192</u>
Total Direct Assistance Programs		282,799,624

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Expenditures of Federal Awards - continued

YEAR ENDED JUNE 30, 2007

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
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	\$ _____ -
Total Pass-Through Programs		_____ -
Total Federal Financial Assistance		\$ <u>282,799,624</u>

SINGLE AUDIT

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	\$ 257,131,497
U.S. Department of Energy	8,796,432
Unbilled U.S. Department of Transportation	<u>16,871,695</u>
Supplemental Schedule of Expenditures, of Federal Awards	\$ <u>282,799,624</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***

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
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, 2007, 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, 2007, as listed in the table of contents, and have issued our report thereon dated September 2, 2008. 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider items 07-1, 07-2, 07-3, 07-4, 07-5, 07-6,



Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

07-7, 07-8, 07-9, 07-10, 07-11, 07-12, 07-13, 05-2, 05-3 and 06-1 in the attached schedule of findings and questioned costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control. We consider items 07-1, 07-2, 07-3, 07-8, 07-11, 07-12, 07-13, and 05-3 to be material weaknesses.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 noncompliance that are required to be reported under *Government Auditing Standards*, which are described as items 07-12, 07-13, 06-01 and 05-02 in the attached schedule of findings and questioned costs.

This report is intended solely for the information and use of the Commissioners, the Department, the Office of the State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration 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.



September 2, 2008

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

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
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, 2007. 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, 2007.



Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
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 the following matters involving the internal control over compliance and its operation that we consider to be material weaknesses: items 07-1, 07-3, 07-8, 07-11 and 07-13.

This report is intended solely for the information and use of the Commissioners, the Department, the Office of the State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration 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.

Mayneus + Company, LLC

September 2, 2008

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs

YEAR ENDED JUNE 30, 2007

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. Sixteen control deficiencies relating to the audit of financial statements of the Department were identified, eight of which were considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the Department were disclosed during the audit.
4. There were five reportable conditions in the internal control over major programs disclosed by the Department.
5. There were five audit findings that the auditor is required to report under 510(a) of Circular A-133.
6. The auditors' report on compliance for the major federal award programs for the Department expresses an unqualified opinion.
7. The programs tested as the major programs included:

Program	CFDA #
Federal Highway Administration Programs (FHWA)	20.205
National Highway Traffic Safety Administration (NHTSA)	20.600, 20.601, 20.602, 20.604, 20.605, 20.608, 20.609, 20.610

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-1 ACCESS TO TIME CODES (Material Weakness)

Condition: Access to time codes is not limited. All employees can use any time code on the list, leading to human errors in capturing proper project payroll expenditures.

Criteria: Employees should be restricted from accessing inappropriate time codes.

Cause: Lack of adequate system controls to limit access to time codes.

Effect: Payroll-related federal expenditures could not be determined on a timely basis for billing to the Federal Highway Administration.

Recommendation: We recommend that controls be developed to restrict open access to all time codes.

Management's Response: During the fiscal year of 2007, SHARE software did not have the capability to prevent postings of disallowed time codes for employees. As a result, during July 2007 a consultant was retained and provided, among other work done, a software fix that provided only allowed time codes to employees for their assigned work.

07-2 Employee Leave Balances (Material Weakness)

Condition: It was discovered during our audit that employees are able to take leave in excess of their available leave balances, causing their available leave balances to go below zero. Essentially, the employee then owes the Department work in order to earn the excess leave hours they took. Occurrences were noted where vacation time had been purchased by the Department, causing balances to go below zero.

During our internal control test work over the payroll system, we noted that one employee used eight hours of personal time allotted for the year; however, the process did not properly capture the event and account for it as a reduction from their leave balance.

Criteria: Employee leave balances should not go below zero. Once an employee's balance reaches zero, no more leave should be approved for the individual.

Cause: Inadequate monitoring of leave balances and lack of system controls to limit leave time taken or sold to leave actually earned by employee(s).

Effect: Employees can take more leave than they have earned, creating an unauthorized employee loan.

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**07-2 Employee Leave Balances (Material Weakness) – continued**

Recommendation: We recommend that process controls be instituted to prevent leave balances from going below zero, and that all leave taken is properly captured and accounted for.

Management's Response: SHARE software does not have the capability to prevent postings that will result in a negative leave balance.

As a result, during July 2007 a consultant was retained and provided, among other work done, a SHARE leave exception reporting function for the Department's payroll unit. DOT has now changed the payroll cycle procedures to routinely run the exception report and proactively correct the employee leave banks.

07-3 CAPITAL ASSETS (Material Weakness)

Condition: During our test work over Capital Assets, we noted the following:

- Capital asset acquisitions for FY07 were not captured in the capital assets module.
- Beginning balances did not tie to prior year audited ending balances by approximately \$2.3 million, net of depreciation.
- The Department could not provide a means to reconcile those items reported on the capital asset additions listing to the capital asset list.
- The Department could not provide MCO with a copy of the voucher or any supporting documentation for voucher number 00013352, related to the purchase of a truck.
- The Department is not calculating depreciation for infrastructure assets.

Criteria:

- The amount of capital assets added to the fixed asset system should agree to the balances recorded as capital outlay expenditures on the general ledger. Beginning balances should equal prior year ending (audited balances).
- Capital asset items purchased in the current year should be identifiable on the fixed asset listing.
- The Department should maintain and be able to locate documentation authorizing and approving fixed asset additions.
- All fixed asset groups should be properly depreciated over their estimated useful lives as required by Generally Accepted Accounting Principles.

Cause:

- Acquisitions during the year were not entered into the fixed asset module in a timely manner. Also, non-capital expenditures were posted to capital outlay accounts throughout the year.
- Lack of effective system controls to ensure that appropriate reconciliations were being prepared.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-3 CAPITAL ASSETS (Material Weakness) - continued

Effect:

- Potential misstatement at both the fund level and government-wide level financial statements due to errors in the accounting for capital asset activity.
- Inability to verify compliance with procurement policies.
- The Department cannot properly track or ensure that capital asset book values are current and properly calculated.

Recommendation:

We recommend that:

- A. Procedures be established to ensure additions are entered into the fixed asset module in a timely manner.
- B. Procedures be established to track additions and deletions to the fixed asset listing so that items are identifiable.
- C. Better controls be put into place to capture and manage documentation regarding fixed assets.
- D. The Department develop a process to calculate depreciation and track book value of infrastructure capital assets

Management's Response: Before the Department of Transportation transitioned into SHARE, fixed assets were tracked by a fixed asset population in FMIS and, in addition, a separate listing held by spreadsheet. The two populations together determined the final balance that was reported. When SHARE was implemented, it was decided that the methodologies used previously should be discarded and all fixed assets be tracked exclusively by the SHARE fixed asset module.

All FMIS fixed asset listings were carried forward into SHARE. The remaining assets are being researched and capitalized into SHARE individually as part of an ongoing audit of all fixed assets held. The Department now uses semiannual physical inventories and certifications as the basis of reconciling the fixed asset module to assure the completeness and existence of the assets. Due to the deficiencies of the SHARE module, reconciling differences are being held on spreadsheet until they are resolved manually and uploaded into the SHARE module.

Due to the lack of readiness of the SHARE fixed assets module, the conversion has not been as timely as originally proposed and thus, the conversion has extended into the following fiscal year.

Infrastructure accounting has been slated for another software application. The Department of Transportation is currently negotiating for the software and implementation of that portion of capital assets. In the meantime, staff will be manually accounting for infrastructure in SHARE.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07 -4 PROPERTY HELD FOR RESALE

Condition: The asset "Property for Resale" had not been adjusted as of June 30, 2007.

Criteria: In accordance with GASB 31, investments must be adjusted to lower of cost or fair value for financial statement purposes. There is a contra-asset called "Property Valuations." This account should be adjusted to reflect any change in fair market value. Any income or loss as a result of the adjustment would then be reported in the statement of activities.

Cause: Lack of formal procedures to ensure accounting in compliance with general accepted accounting principles.

Effect: Potential misstatement of asset, revenue or expenditures related to adjustment of Property Held for Resale.

Recommendation: We recommend that procedures be established to regularly assess the value of property held for resale (minimum at year end), and adjust the Property Valuations account accordingly.

Management's Response: The Transportation Oriented Property Asset Management Division is currently reviewing property information and researching data management systems to address this finding and other related management needs. Properties owned by the Department are extensive; the current list of properties for resale is being updated as part of the current review process. Value of the properties is constantly changing with the market and fluctuates by area. We will be developing a system to project current values, subject to appraisal prior to resale, lease etc.

In an effort to provide corrective action for this finding we will be taking the following steps:

- Evaluate existing data management systems which are used by other states, and select one to be acquired by the Department.
- Develop a methodology for determining projected value on a state/regional basis or on a statewide scale.
- Begin a 90-day pilot program on the use of the recommended system by August 4, 2008, prior to its acquisition.
- Purchase and implement a data program by February 2, 2009.

07-5 DOUBLE PAYMENTS

Condition: While performing a search for unrecorded liabilities, we identified several vouchers, totaling approximately \$80,000, which had been paid twice.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-5 DOUBLE PAYMENTS - continued

Criteria: As per the Share training, one voucher should represent one invoice.

Cause: Lack of adequate process controls. If an associate pays more than one invoice on a voucher, Share will not recognize the invoice as being paid and allow a subsequent payment. If the invoice number is not keyed exactly the same way, an invoice can be double paid.

Effect: As a result of inadequate process controls, the Department could be overstating expenditures and overpaying vendors.

Recommendation: We recommend that the supervisor review to ensure that only one invoice is being processed on each voucher.

Management's Response: During the fall of 2007, the Financial Control Unit met with the Districts to address this and other related control issues regarding payment vouchers. It was agreed that the Department of Transportation implement a 2nd level approval procedure at the District level in order to add a review point for the invoices at the point of origin. Assigned staff at the District level reviews the pending payment vouchers with documentation and compares the payment vouchers to historical payment files to assure that duplicate payments can be caught early. The assigned staff notifies the Financial Control Unit of their approval of submitted payment vouchers via email in order for Financial Control to release payment.

After review of the new process, Financial Control believes that it reduces the incidence of duplication errors to a reasonable level. Financial Control is currently planning on implementing the 2nd level approval procedure in the General Office this fall.

07-6 AUDIT TRAIL FOR PAYMENT VOUCHERS

Condition: When testing Accounts Payable, it was discovered that a voucher could be deleted from the accounting system without leaving an audit trail. As a result, 29 payments vouchers could not be provided for our testwork.

Criteria: All systems should provide an appropriate audit trail to resolution.

Cause: Lack of adequate system controls.

Effect: Unknown obligations may exist which would have a direct impact on any related financial reporting.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-6 AUDIT TRAIL FOR PAYMENT VOUCHERS - continued

Recommendation: The system should be modified to ensure that transactions cannot be deleted from the system without being detected.

Management's Response: SHARE allows a voucher to be deleted from the system before the voucher is approved. After that point, SHARE no longer keeps that voucher available for retrieval.

Since SHARE will not retrieve deleted vouchers, staff now prints out a screen print of the voucher with the message box notifying of the deletion. A copy of the screen print is now kept on file in case the deleted voucher needs to be reviewed.

07-7 ACCOUNTS PAYABLE

Condition: When performing a search for unrecorded liabilities test work, it was noted that:

- Two vouchers had the following situation: The "Estimate Summary to Contractor" indicates that this payment was for work performed in FY08. However, there was a "Certification of Prior Year Bill and Available Budget" attached to the voucher packet indicating that the goods or services were received prior to the FY07 year end. These two items are conflicting.
- One of the sample items had an invoice dated May 17, 2007, for services performed prior to June 30, 2007. The packet appropriately included a "Certification of Prior Year Bill and Available Budget" as the services were performed prior to year end, but payment was not made until July 19, 2007. However, the voucher was not properly accrued at June 30, 2007. Instead, the accounting date which set up the payable was the same as the entry date (July 17, 2007).
- There were forty-one journal entries required to correctly state accounts payable as of June 30, 2007.

Criteria: In accordance with the matching principal expenditures should be recorded in the same period as the receipt and consumption of the goods or services.

Cause: Lack of proper tracking of accounts payable at year end and detective controls to identify key entry errors.

Effect: Significant adjustments were required to properly state accounts payable accounts at year end.

Recommendation: 1) We recommend that the "Certification of Prior Year Bill and Available Budget" only be included if the goods or services actual were provided prior to year end, not if it contradicts the invoice or other supporting documentation. 2) We also recommend better process controls to detect key/data entry errors. 3) Liabilities should only be recorded for goods or services received prior to year end.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-7 ACCOUNTS PAYABLE - continued

Management's Response: Within Financial Control's voucher approval process, we will be implementing a revised procedure at year end. This revision includes the procedure for staff to review the invoice date field on vouchers electronically submitted from districts in order to identify and correct errors created during the year-end cutoff. The staff will then request additional documentation in order to assess the correct reporting period before posting. After this process, a list will be created itemizing payables that may be accrued into the year-end financial statements after SHARE closes its open payables period.

07-8 JOURNAL ENTRIES (Material Weakness)

Condition:

- Approval History within the accounting system often showed that the same individual initiated and approved a journal entry. Per inquiry of client, the source entries are approved by another individual, but the system fails to record the approval process correctly
- Various erroneous journal entries totaling \$110,153,000 were recorded during the course of the year and remained uncorrected as of June 30, 2007.

Criteria: There should be controls in place ensuring that supervisors approve journal entries and there should be cross-checking requirements to ensure an individual with accounting knowledge approves the journal entries to ensure they are appropriate.

Cause: Lack of effective controls over preparation and approval of journal entries.

Effect: Unadjusted accounts were materially misstated at June 30, 2007.

Recommendation: MCO recommends that procedures be implemented to ensure proper oversight and review of all proposed journal entries.

Management's Response: Because of this weakness in SHARE, the Department is implementing a new procedure for documenting journal entries.

All journal entries submitted must be accompanied by a Journal Voucher Form which documents the journal entry purpose, a print-out of the journal entry, approval signatures of supervisors and any other documentation that is deemed appropriate to support the entry. This hard copy will be kept on file for review.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-9 MISPOSTING OF EXPENDITURES

Condition: During our Single Audit Compliance test work, we noted that one unallowable expenditure was recorded against a federal grant project. The accounting system does not have in place preventive controls to restrict the project codes available for input into the system to specific users. The error was identified and corrected by the Department and the cost was not charged to the federal grant for reimbursement.

Criteria: Federal expenditures should be disbursed under the allowable costs for the specific CFDA number according to the OMB. Controls should be in place to restrict project codes to those applicable to specific users.

Cause: Lack of proper preventive security controls.

Effect: Disbursements could be paid for unallowable expenditures.

Recommendation: We recommend that security controls be implemented to restrict project codes to those applicable to specified users.

Management's Response: Since SHARE cannot restrict project codes available on its pick list, the Department is using the supervisor approval process to review and catch coding errors.

The Department is investigating the possibility of programming SHARE to edit project codes that are displayed on the pick list

07-10 PER DIEM REIMBURSEMENTS

Condition: Per diem reimbursements for 80% of travel expenditures and the reclassification of accounts receivable per diem advances to travel expenditures are being recorded/reclassified 6 months subsequent to when the travel took place.

Criteria: Travel expenditures for per diem should be submitted no later than two weeks after the travel took place and should be reconciled at year end to determine all current year expenditures have been properly classified at year end.

Cause: Lack of accounts receivable per diem reconciliation monthly and at year end and timely processing of per diem travel reimbursements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-10 PER DIEM REIMBURSEMENTS - continued

Effect: Expenditures could be materially understated at FYE because the reclassification of accounts receivable per diem travel advance to travel expenditures does not get recorded until the 80% advance has been recorded and issued 6 months subsequent to when the travel took place; therefore, the balance for this account could consist of travel expenditures already incurred but not reclassified to expense accounts from accounts receivable per diem.

Recommendation: We recommend that the Department reconcile all travel advances accounts receivable balances outstanding monthly and at year end to determine whether all current year expenditures have been properly reclassified from the accounts receivable per diem account in the current year.

Management's Response: Historically, the procedures have been reliant on timely follow up by employees to complete the prepaid per diem documentation upon return from travel. For a few employees, the follow up paperwork is tardy or nonexistent.

As a result, management is implementing, as part of the monthly reconciliation process, a list of outstanding prepaid balance listing of employees. This list will be routinely forwarded to the Districts and other supervisors for enforcement of the per diem and travel policy in place.

07-11 PAYROLL EXPENDITURES AND LIABILITIES (Material Weakness)

Condition: Payroll expenditures and liabilities were misposted to incorrect funds/accounts throughout the year.

Criteria: Transactions should be properly classified according to fund and account per Generally Accepted Accounting Principles and Auditing Standards.

Cause: Lack of sufficient management oversight and proper training of staff.

Effect: Significant year-end adjustments were required to correct account balances.

Recommendation: We recommend that the Department review its payroll posting procedures to ensure that all payroll costs are captured and recorded in the correct accounts/funds.

Management's Response: Statewide, implementation of SHARE originally resulted in state employees' costs posted into incorrect funds, departments and projects. Additionally, some budgets were not posted into the correct funds, departments and projects. As a result, the state engaged in a lengthy process of reversing, reviewing on a detailed basis each individual employee's status, assigned codes and resultant expenditure posting for each and every payroll, and then re-posting corrected data.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-11 PAYROLL EXPENDITURES AND LIABILITIES (Material Weakness) - continued

Management's Response - continued:

The Department of Transportation has an additional difficulty in this process in that federal reimbursement of employee time worked is a highly detailed process that requires additional classification above and beyond GAAP requirements.

The Department has been engaging in a long-term approach to identify processes that may be eventually programmed into SHARE and which processes that must require a work-around procedure in order to enable to satisfy both the SHARE structure capabilities and federal requirements.

07-12 ACTUAL VERSUS BUDGETED EXPENDITURES (Material Weakness)

Condition:

- Actual expenditures were not adequately tracked for compliance with budgeted expenditures over the course of the fiscal year.
- The following program expense category had actual expenditures in excess of budgeted expenditures as of June 30, 2007:
 - Business/Program Support – Other Expenditures was over budget by \$24,911,120. Budgeted expenditures were \$173,480,702. Actual expenditures, budgetary basis were \$198,391,822.
 - Transportation & Highway Operations – Other Expenditures was over budget by \$9,557,078. Budgeted expenditures were \$108,403,323. Actual expenditures, budgetary basis were \$198,391,822.
- Payments to vendors (disbursements) totaling approximately \$23,500,000 were posted to liability accounts (rather than expenditures) during the first three months of the fiscal year and remained uncorrected as of June 30, 2007.
- Budget Status Reports utilized to produce monthly financial reporting to the Commission were incorrect over the course of the year.

Criteria: Actual expenditures may not exceed budgeted expenditures per 2.2.2.10 NMAC (P).

Cause: The SHARE system will not allow disbursements to be made without budget authority. For the first few months of the year, budget authority had not been established and the Department was unable to process vendor payments. The Department circumvented this system control by posting the expenditure amounts as debits to liability accounts. The expenditures were not reclassified to the appropriate expenditure accounts and the errors remained uncorrected as of June 30, 2007.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-12 ACTUAL VERSUS BUDGETED EXPENDITURES (Material Weakness) - continued

Effect: Budgeted expenditures could be overspent.

Recommendation: We recommend that procedures be instituted to ensure that actual expenditures are tracked against budgeted expenditures for each reporting period. We also recommend that proper review and authorization of transactions and review of the general ledger be conducted to ensure that transactions are properly recorded in correct accounts.

Management's Response: Because this is due to inadequate training and management oversight, this finding is related to finding 07-13.

Until the budget authority could be implemented during 2007, staff members were authorized to post expenditures into liability accounts in order to process and disburse monies to vendors in a timely manner.

However, due to a lack of available staff to accommodate the new procedures and processes necessary that SHARE now requires, the resultant monthly GAAP reconciliations to identify and correct all misclassifications and mispostings did not occur until the implementation of the new controller's office. As a result, the reclassification of expenditures extended the final year end balances past the available budget.

07-13 TIMELINESS OF AUDIT AND ACCOUNTING PROCEDURES (Material Weakness)

Condition: Significant audit adjustments and reclassifications to the June 30, 2007, trial balance were required to comply with U.S. Generally Accepted Accounting Principles. The following accounts were not adjusted at June 30, 2007 to reflect correct balances:

- Capital outlay accounts
- Due to / from other funds
- Due to / from other state agencies and bond proceeds
- Cash held at trustee
- Deferred revenue
- Accounts Receivable/Revenue Balances
- Transactions related to operations of the Rail Runner were not recorded on the general ledger; specifically, casement revenue and related expenditures.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

**07-13 TIMELINESS OF AUDIT AND ACCOUNTING PROCEDURES (Material Weakness)
- continued**

Criteria: Accounting principles generally accepted in the United States of America require that all financial transactions be properly classified, recorded and summarized for financial statement preparation. The audit report is due to the State Auditor's Office on or by December 15, 2007.

Cause: Lack of staff experience with accounting concepts and procedures; lack of adequate training on the SHARE system; and lack of adequate management oversight.

Effect: Incorrect account balances, resulting in over- and under-statement of assets, liabilities, revenue and expenditures. Beginning fund balances did not agree to amounts reported in the prior year audit report. Noncompliance with the December 15, 2007 State Auditor deadline.

Recommendation: We recommend that the Department take appropriate measures to ensure that all audit adjustments are properly recorded, that beginning fund balances are correct and that all transactions are recorded in the appropriate funds/accounts.

Management's Response: During fiscal year 2008, the Department assessed the available staff, experience and management support. As a result, the financial units were reorganized in order to better utilize experienced staff members. Additionally, the planned addition of an agency controller's office was implemented with recruitment of certified public accountants with in-depth experience with GAAP financial reporting in the State of New Mexico.

As a result, current staff members are now redirecting their attention to the daily business of the agency with new controller's office staff members' attention to completely reorganizing the processes and procedures necessary to bring the agency to monthly GAAP financial accounting. During the 2009 fiscal year, the Department will be implementing mandatory accounting courses to financial staff.

07-14 OVER-EXPENDED APPROPRIATION UNITS

Condition: The Department budgeted expenditures in excess of revenues and prior year available fund balance:

- State Road Fund \$212,312,555.

Criteria: Per (2.2.2.10 NMAC), all actual expenditures exceeding budgeted expenditures at legal level of budgetary compliance must be reported as a finding.

Cause: Management has not been consistently monitoring the budgeted expenditure level.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-14 OVER-EXPENDED APPROPRIATION UNITS - continued

Effect: The State Road Fund was over-expended.

Recommendation: The Department must track all expenditures and submit Budget Adjustment Requests to ensure compliance with the final budget.

Agency's Response: Although management believes that encumbrance balances from multi year funds and fund (cash) balances from non-reverting single year funds were properly accounted for in budget submittals and BAR approvals, commingling of those dissimilar funds created reporting discrepancies at year end. Management plans to report budget to actual information on a fund by fund basis in the future to prevent this type of reporting error in the future.

06-1 INVENTORY RECONCILIATIONS (Repeated and Modified)

Condition: During our test work of inventories, we noted that the inventory listings did not match the general ledger balances as of June 30, 2007. Although a corrected inventory listing was provided, the Department was unable to provide all invoices requested for price testing.

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 the 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.

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 inventory listing to ensure balances are correct at year end.

Management's Response: In the timeframe available, all districts were able to turn in the requested documentation with the exception of District 5.

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:

- One of the forty personnel files tested did not contain a deduction authorization form.
- For one of the 40 personnel files tested, gross pay did not match the most recent Personnel Action Form that was in the file.

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: Procedures exist to ensure that all employee files contain complete information. However, one was missing due to human error or oversight.

Effect: Deductions and gross pay amounts cannot be verified.

Recommendation: We recommend stronger internal control procedures to ensure pertinent information is obtained and retained in the employees' files.

Management's Response: We have put into place procedures for auditing new personnel files as they are created and are actively working to improve documentation of the current files.

We have repeatedly requested documentation of the above errors noted from the auditors, but have not received them. As such, we cannot respond to the specific items at this time.

05-3 GRIP POSTING ERRORS (Material Weakness – Repeated and Modified)

Condition: During our audit over cash related to the GRIP 2004 and 2006 series bonds, we noted the following:

- Except for interest revenue, activity for trustee accounts was not posted during the course of the fiscal year (unrealized gains/losses, transfers in/out) to general ledger.
- Portions of the debt service payments that were provided by Trustee revenue activity were not posted to the general ledger.
- Due to/from other funds related to transfers of funds between GRIP 2004 series bonds and GRIP 2006A-D bonds were not posted.
- Activity related to the interest SWAPS was not recorded as of year end.

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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-3 GRIP POSTING ERRORS (Material Weakness – Repeated and Modified) - continued

Cause: Lack of reconciliation process and management oversight.

Effect: Cash balances, interest expense, revenue, transfers and internal balances were misstated during the course of the year by material amounts, requiring significant adjustments to correct balances.

Recommendation: The Department should establish a procedure whereby all trustee accounts related to the GRIP 2004 and 2006 series are reconciled and all transactions are posted on a monthly basis.

Management's Response: This condition was caused by setting the budget into incorrect funds and also not budgeting adequately for investment revenue and expenditure activities on behalf of the Department by the Trustee.

We are in the process of reorganizing the budgetary and fiscal activities in order to fully account for all activities by utilizing journal entries based on monthly reconciliations to trustee statements. By mid-2009 fiscal year, staff will be retrained and the bonded debt will be recorded on a GAAP basis and fully reconciled to all cash and trustee activity.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

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

07-1 ACCESS TO TIME CODES (Material Weakness)

Condition: Access to time codes is not limited. All employees can use any time code on the list, leading to human errors in capturing proper project payroll expenditures.

Criteria: Employees should be restricted from accessing inappropriate time codes.

Cause: Lack of adequate system controls to limit access to time codes.

Effect: Payroll-related federal expenditures could not be determined on a timely basis for billing to the Federal Highway Administration.

Recommendation: We recommend that controls be developed to restrict open access to all time codes.

Management's Response: During the fiscal year of 2007, SHARE software did not have the capability to prevent postings of disallowed time codes for employees. As a result, during July 2007 a consultant was retained and provided, among other work done, a software fix that provided only allowed time codes to employees for their assigned work.

07-3 CAPITAL ASSETS (Material Weakness)

Condition: During our test work over Capital Assets, we noted the following:

- Capital asset acquisitions for FY07 were not captured in the capital assets module.
- Beginning balances did not tie to prior year audited ending balances by approximately \$2.3 million, net of depreciation.
- The Department could not provide a means to reconcile those items reported on the capital asset additions listing to the capital asset list.
- The Department could not provide MCO with a copy of the voucher or any supporting documentation for voucher number 00013352, related to the purchase of a truck.
- The Department is not calculating depreciation for infrastructure assets.

Criteria:

- The amount of capital assets added to the fixed asset system should agree to the balances recorded as capital outlay expenditures on the general ledger. Beginning balances should equal prior year ending (audited balances).
- Capital asset items purchased in the current year should be identifiable on the fixed asset listing.
- The Department should maintain and be able to locate documentation authorizing and approving fixed asset additions.

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

07-3 CAPITAL ASSETS (Material Weakness) - continued

Criteria - continued:

- All fixed asset groups should be properly depreciated over their estimated useful lives as required by Generally Accepted Accounting Principles.

Cause:

- Acquisitions during the year were not entered into the fixed asset module in a timely manner. Also, non-capital expenditures were posted to capital outlay accounts throughout the year.
- Lack of effective system controls to ensure that appropriate reconciliations were being prepared.

Effect:

- Potential misstatement at both the fund level and government-wide level financial statements due to errors in the accounting for capital asset activity.
- Inability to verify compliance with procurement policies.
- The Department cannot properly track or ensure that capital asset book values are current and properly calculated.

Recommendation:

We recommend that:

- E. Procedures be established to ensure additions are entered into the fixed asset module in a timely manner.
- F. Procedures be established to track additions and deletions to the fixed asset listing so that items are identifiable.
- G. Better controls be put into place to capture and manage documentation regarding fixed assets.
- H. The Department develop a process to calculate depreciation and track book value of infrastructure capital assets

Management's Response: Before the Department of Transportation transitioned into SHARE, fixed assets were tracked by a fixed asset population in FMIS and, in addition, a separate listing held by spreadsheet. The two populations together determined the final balance that was reported. When SHARE was implemented, it was decided that the methodologies used previously should be discarded and all fixed assets be tracked exclusively by the SHARE fixed asset module.

All FMIS fixed asset listings were carried forward into SHARE. The remaining assets are being researched and capitalized into SHARE individually as part of an ongoing audit of all fixed assets held. The Department now uses semiannual physical inventories and certifications as the basis of reconciling the fixed asset module to assure the completeness and existence of the assets. Due to the deficiencies of

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

07-3 CAPITAL ASSETS (Material Weakness) - continued

Management's Response - continued:

the SHARE module, reconciling differences are being held on spreadsheet until they are resolved manually and uploaded into the SHARE module.

Due to the lack of readiness of the SHARE fixed assets module, the conversion has not been as timely as originally proposed and thus, the conversion has extended into the following fiscal year.

Infrastructure accounting has been slated for another software application. The Department of Transportation is currently negotiating for the software and implementation of that portion of capital assets. In the meantime, staff will be manually accounting for infrastructure in SHARE.

07-8 JOURNAL ENTRIES (Material Weakness)

Condition:

- Approval History within the accounting system often showed that the same individual initiated and approved a journal entry. Per inquiry of client, the source entries are approved by another individual, but the system fails to record the approval process correctly
- Various erroneous journal entries totaling \$110,153,000 were recorded during the course of the year and remained uncorrected as of June 30, 2007.

Criteria: There should be controls in place ensuring that supervisors approve journal entries and there should be cross-checking requirements to ensure an individual with accounting knowledge approves the journal entries to ensure they are appropriate.

Cause: Lack of effective controls over preparation and approval of journal entries.

Effect: Unadjusted accounts were materially misstated at June 30, 2007.

Recommendation: MCO recommends that procedures be implemented to ensure proper oversight and review of all proposed journal entries.

Management's Response: Because of this weakness in SHARE, the Department is implementing a new procedure for documenting journal entries.

All journal entries submitted must be accompanied by a Journal Voucher Form which documents the journal entry purpose, a print-out of the journal entry, approval signatures of supervisors and any other documentation that is deemed appropriate to support the entry. This hard copy will be kept on file for review.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

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

07-11 PAYROLL EXPENDITURES AND LIABILITIES (Material Weakness)

Condition: Payroll expenditures and liabilities were misposted to incorrect funds/accounts throughout the year.

Criteria: Transactions should be properly classified according to fund and account per Generally Accepted Accounting Principles and Auditing Standards.

Cause: Lack of sufficient management oversight and proper training of staff.

Effect: Significant year-end adjustments were required to correct account balances.

Recommendation: We recommend that the Department review its payroll posting procedures to ensure that all payroll costs are captured and recorded in the correct accounts/funds.

Management's Response: Statewide, implementation of SHARE originally resulted in state employees' costs posted into incorrect funds, departments and projects. Additionally, some budgets were not posted into the correct funds, departments and projects. As a result, the state engaged in a lengthy process of reversing, reviewing on a detailed basis each individual employee's status, assigned codes and resultant expenditure posting for each and every payroll, and then re-posting corrected data.

The Department of Transportation has an additional difficulty in this process in that federal reimbursement of employee time worked is a highly detailed process that requires additional classification above and beyond GAAP requirements.

The Department has been engaging in a long-term approach to identify processes that may be eventually programmed into SHARE and which processes that must require a work-around procedure in order to enable to satisfy both the SHARE structure capabilities and federal requirements.

07-13 TIMELINESS OF AUDIT AND ACCOUNTING PROCEDURES (Material Weakness)

Condition: Significant audit adjustments and reclassifications to the June 30, 2007, trial balance were required to comply with U.S. Generally Accepted Accounting Principles. The following accounts were not adjusted at June 30, 2007 to reflect correct balances:

- Capital outlay accounts
- Due to / from other funds
- Due to / from other state agencies and bond proceeds
- Cash held at trustee
- Deferred revenue

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Questioned Costs - continued

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

07-13 TIMELINESS OF AUDIT AND ACCOUNTING PROCEDURES (Material Weakness)
- continued

Condition - continued:

- Accounts Receivable/Revenue Balances
- Transactions related to operations of the Rail Runner were not recorded on the general ledger; specifically, easement revenue and related expenditures.

Criteria: Accounting principles generally accepted in the United States of America require that all financial transactions be properly classified, recorded and summarized for financial statement preparation. The audit report is due to the State Auditor's Office on or by December 15, 2007.

Cause: Lack of staff experience with accounting concepts and procedures; lack of adequate training on the SHARE system; and lack of adequate management oversight.

Effect: Incorrect account balances, resulting in over- and under-statement of assets, liabilities, revenue and expenditures. Beginning fund balances did not agree to amounts reported in the prior year audit report. Noncompliance with the December 15, 2007 State Auditor deadline.

Recommendation: We recommend that the Department take appropriate measures to ensure that all audit adjustments are properly recorded, that beginning fund balances are correct and that all transactions are recorded in the appropriate funds/accounts.

Management's Response: During fiscal year 2008, the Department assessed the available staff, experience and management support. As a result, the financial units were reorganized in order to better utilize experienced staff members. Additionally, the planned addition of an agency controller's office was implemented with recruitment of certified public accountants with in-depth experience with GAAP financial reporting in the State of New Mexico.

As a result, current staff members are now redirecting their attention to the daily business of the agency with new controller's office staff members' attention to completely reorganizing the processes and procedures necessary to bring the agency to monthly GAAP financial accounting. During the 2009 fiscal year, the Department will be implementing mandatory accounting courses to financial staff.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Summary Schedule of Prior Year Audit Findings

- 06-1 Inventory Reconciliations – Repeated and Modified
- 05-2 Personnel and Payroll – Repeated and Modified
- 05-3 GRIP Posting Errors – Repeated and Modified
- 05-4 Lack of Segregation of Duties – Resolved
- 05-6 Disaster Recovery Plan – Resolved

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Exit Conference

An exit conference was held with the Department on September 8, 2008. The conference was held at the Department's offices in Santa Fe, New Mexico. In attendance were:

STATE OF NEW MEXICO DEPARTMENT OF TRANSPORTATION

Rhonda Faught, Cabinet Secretary
Gary Giron, Deputy Secretary of the Office of Business Support
Roman Maes, Commissioner
Larry Viarreal, Finance Bureau Director
Greg Geisler, Finance Director
Anissa Martinez
Dustene Facticeau
Art Gottlieb
Robert Ortiz
Anthony Garcia
Eileen Vigil
Ron Baca
Bridgett Long
Kathleen Pinyan
Bernie Padilla
Dolores Gallegos

MEYNNERS + COMPANY, L.L.C

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

PREPARATION OF FINANCIAL STATEMENTS

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