NEW MEXICO MORTGAGE FINANCE AUTHORITY

(A Component Unit of the State of New Mexico)

Financial Statements
and Single Audit Reports

September 30, 2014 and 2013

(With Independent Auditors' Reports Thereon)

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

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NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Board of Directors

September 30, 2014 and 2013

Name	**Title**
Dennis Burt	Chairman
Angel Reyes	Vice Chairman
James B. Lewis, New Mexico State Treasurer	Treasurer
John A. Sanchez, New Mexico Lieutenant Governor	Member
Gary King, New Mexico Attorney General	Member
Randy McMillan	Member
Steven J. Smith	Member

KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

The Authority Members
New Mexico Mortgage Finance Authority and
Mr. Hector H. Balderas, New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the New Mexico Mortgage Finance Authority (the Authority), a component unit of the State of New Mexico, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the New Mexico Mortgage Finance Authority as of September 30, 2014 and 2013, and the changes in financial position, and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 1(b) to the financial statements, effective October 1, 2013, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, Reporting of Items Previously Reported as Assets and Liabilities. *Our opinions are not modified with respect to this matter*.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 5–12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, and schedule of pledged collateral for public funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards and the schedule of pledged collateral of public funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of pledged collateral for public funds are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 23, 2014

In 1975, the New Mexico state legislature created the New Mexico Mortgage Finance Authority (the Authority), as a governmental instrumentality of the State of New Mexico. The purpose of the Authority is to raise funds from public and private investors in order to finance the acquisition, construction, rehabilitation and improvement of residential housing for persons and families of low to moderate income New Mexicans.

This section of the Authority's annual financial report presents management's discussion and analysis of financial position and changes in financial position for the fiscal years ended September 30, 2014, 2013, and 2012. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). The Authority is a self-supporting entity and follows business-type activity reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the Authority's activities. This analysis should be read in conjunction with the independent auditors' report, audited financial statements, and accompanying notes.

Effective October 1, 2013, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012. This Statement establishes accounting standards to reclassify certain items that were previously reported as assets and liabilities as deferred outflows or inflows on the Statement of Net Position. This Statement also recognizes certain items that were previously reported as assets and liabilities as outflows or inflows of resources on the Statements of Revenues, Expenses and Changes in Net Position. Accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating the basic financial statements for all prior periods presented.

Financial Highlights

The Authority's financial position and results of operations for the current and two most recent prior years are summarized below (in thousands):

		2014	2013 (restated)	2012 (restated)
Cash and cash equivalents (unrestricted and restricted)	$	60,977	98,367	155,426
Investments (unrestricted and restricted)		62,316	55,640	50,319
Mortgage-backed securities and mortgage loans receivable		935,630	1,034,944	1,169,752
Total assets		1,066,348	1,197,362	1,384,604
Bonds payable		812,561	953,689	1,106,303
Total liabilities		826,100	966,811	1,121,760
Total net position		241,549	231,889	264,157
Total operating revenues		55,420	15,587	68,776
Total operating expenses		45,971	50,864	60,816
Operating income (loss)		9,449	(35,277)	7,960
Total nonoperating revenues		211	3,009	12
Change in net position		9,660	(32,268)	7,972

Financial Position

The net position of the Authority increased $9.7 million from September 30, 2013 to September 30, 2014 and decreased $32.3 million from September 30, 2012 to September 30, 2013. The following table is a condensed summary of net position at September 30, 2014, 2013, and 2012 (in thousands):

		2014	2013 (restated)	2012 (restated)
Assets:				
Current assets	$	40,177	45,482	47,512
Noncurrent assets		1,026,171	1,151,880	1,337,092
Total assets		1,066,348	1,197,362	1,384,604
Deferred outflows of resources:				
Refunding of debt		1,301	1,338	1,313
Total deferred outflows of resources		1,301	1,338	1,313
Liabilities:				
Current liabilities		25,411	31,499	32,527
Noncurrent liabilities		800,689	935,312	1,089,233
Total liabilities		826,100	966,811	1,121,760
Net position:				
Invested in capital assets, net of related debt		(681)	(672)	(575)
Restricted		83,872	81,079	128,114
Restricted for land title trust and housing trust		25,881	24,512	20,913
Unrestricted		132,477	126,970	115,705
Total net position	$	241,549	231,889	264,157

Comparison of Years Ended September 30, 2014 and 2013

The decrease in cash and cash equivalents of $37.4 million reflects a reduction in restricted cash related to bond financing for the Single Family Mortgage Program as a result of decreased debt service cash collected due to lower outstanding debt balances and reduced interest through actions to restructure debt. Other factors include more timely bond program redemptions related to prepayments and excess revenues from securitized mortgage loans, and new bond structures with monthly and quarterly call provisions, thus providing better liquidity management in relation to the Single Family Bond Program. The Authority purchased $15.4 million in Mortgage Backed Securities (MBS) and $13.0 million in whole loans during the year; MBS and whole loan purchases were offset by MBS prepayments of $91.5 million and whole loan prepayments of $0.7 million, reflected in the $99.3 million net decrease of MBS and mortgage loans receivable. Essentially, loan prepayments occurred without a corresponding increase in new loans. Due to market conditions, in late 2013, the Authority began utilizing the secondary market to fund the majority of its single family mortgage loans. This execution provides a funding mechanism for the Single Family Mortgage Program when a bond transaction is not viable; the MBS are sold into the secondary market. The current interest rate environment continues to limit the Authority's ability to issue new bonds; current interest rates for mortgage loans have been lower than interest rates on new bond issuances. This business model is used by many Housing Finance Agencies across the country to assist in keeping single family programs competitive and in stabilizing revenue streams. The $6.7 million increase in investments is primarily attributed to the $7.8 million investment in Authority's MBS. Using available liquidity MBS were purchased as part of a bond refunding to hold in the intermediate-term investment portfolio. The overall effect of these elements resulted in the 10.9% decrease in total assets. The TBA funding execution also impacts the liabilities of the Authority. Over the past year, the Authority experienced a $141.1 million net decrease in bonds payable. As already noted, single family loans are being sold and not funded with debt, thus Authority liabilities decreased 14.6%. Proceeds from the issuance and sale of bonds and notes payable were $35.0 million; bond repayments and refundings totaled $170.9 million, resulting in the net decrease for the year. The Authority received $115.9 million in repayments, including prepayments, of securitized mortgage loans and $10.8 million of whole loan and down payment assistance loan repayments during the year.

Comparison of Years Ended September 30, 2013 and 2012

The decrease in cash and cash equivalents of $57.1 million reflects a reduction in restricted cash related to bond financing for the Single Family Mortgage Program and is indicative of more timely bond program redemptions related to prepayments and excess revenues from securitized mortgage loans as well as new bond structures with monthly and quarterly call provisions, thus providing better liquidity management in relation to the single family bond program. The Authority purchased $103.3 million in Mortgage Backed Securities (MBS) and $13.4 million in whole loans during the year; however, MBS and whole loan purchases were offset by MBS prepayments of $188.1 million and whole loan prepayments of $1.0 million, reflected in the $134.8 million net decrease of MBS and mortgage loans receivable. The $5.3 million increase in investments is primarily attributed to the $3.0 million investment of the Housing Trust Fund appropriation received from the State of New Mexico in the State Investment Council portfolio. The overall effect of these elements resulted in the 13.5% decrease in total assets. Over the past year, the Authority experienced a $152.6 million net decrease in bonds payable. Proceeds from the issuance and sale of bonds and notes payable were $102.0 million; bond repayments and refundings totaled $249.7 million, resulting in the net decrease for the year. The Authority received $197.7 million in repayments, including prepayments, of securitized mortgage loans and $9.9 million of whole loan and down payment assistance loan repayments during the year.

Change in Financial Position

The Authority's operating income for the year increased by approximately $44.7 million when compared to fiscal year 2013. The following table is a condensed summary of changes in net position for the years ended September 30, 2014, 2013, and 2012 (in thousands):

		2014	2013 (restated)	2012 (restated)
Operating revenues:				
Interest on loans and MBS	$	41,279	45,875	53,422
Interest on securities and investments		3,110	4,176	4,434
Program revenues		1,558	1,314	1,626
Net (decrease) increase in fair value of investments		2,795	(39,947)	(1,723)
Loan and commitment fees		198	1,273	1,156
Administrative fees		5,031	2,737	3,047
Other revenues		1,449	159	6,814
Total operating revenues		55,420	15,587	68,776
Operating expenses:				
Interest expense		35,137	42,200	49,648
Administrative fees and other expenses		10,834	8,664	11,168
Total operating expenses		45,971	50,864	60,816
Operating (loss) income		9,449	(35,277)	7,960
Nonoperating revenues (expenses):				
Grant award income		42,228	47,174	57,690
Grant award expense		(42,228)	(47,174)	(57,690)
State appropriations		200	3,000	—
Land title trust contributions		11	9	12
		211	3,009	12
Change in net position		9,660	(32,268)	7,972
Total net position, beginning of year		231,889	264,157	256,185
Total net position, end of year	$	241,549	231,889	264,157

Comparison of Years Ended September 30, 2014 and 2013

The change in fair value of securities for 2014 was an increase of $2.8 million compared to a decrease of $39.9 million in 2013. This line represents a decrease in the overall fair value of investments, including securitized mortgage loans, held at September 30, 2014 compared to their fair value at September 30, 2013 due to a slight decrease in market interest rates of approximately 0.12% at September 30, 2014 compared to September 30, 2013, which was partially offset by a decrease in securitized mortgage loans at September 30, 2014 of $103.5 million compared to September 30, 2013. As required by GASB Statement No. 31, *Accounting* *and Financial Reporting for Certain Investments and for External Investment Pools* (GASB No. 31), we account for investments in securitized mortgage loans at fair value. These MBS serve as collateral for the single family bonds issued by MFA and provide the revenue source to repay these debt obligations and legally MFA cannot sell/trade the related securities until the bonds are paid in full. The Authority's rating agencies do not include GASB No. 31 valuation adjustments in their analysis of the HFA's performance. Without the required GASB No. 31 adjustment, the operating income for the period increased $2.0 million compared to prior year.

Operating revenues increased $39.8 million from 2013 to 2014; however, without the required GASB No. 31 adjustment operating revenues were $2.9 million less than in 2013. The low interest rate environment has continued to impact interest income-related revenue. As a result of a continued drop in MBS and mortgage loan production as well as high prepayment activity, the Authority experienced a decrease in mortgage interest revenue of approximately $4.6 million in the current year. The Authority experienced an increase of $2.3 million for administrative fees due to transaction fees related to loan sales in the secondary market in 2014. Also in 2014, nonoperating revenues decreased by $2.8 million in comparison to 2013 due to the recognition of a Housing Trust Fund appropriation received from the State of New Mexico in 2013.

Operating expenses decreased by $4.9 million in 2014, approximately 10%, primarily due to decreased interest expense of $7.1 million as a result of lower bond expenses due to continued prepayments and debt restructuring.

Comparison of Years Ended September 30, 2013 and 2012

The change in fair value of securities for 2013 was a decrease of $39.9 million compared to a decrease of $1.7 million in 2012. This line represents a decrease in the overall fair value of investments, including securitized mortgage loans, held at September 30, 2013 compared to their fair value at September 30, 2012 due to an increase in market interest rates of approximately 0.81% at September 30, 2013 compared to September 30, 2012, which was partially offset by a decrease in securitized mortgage loans at September 30, 2013 of $98.2 million compared to September 30, 2012. As required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB No. 31), we account for investments in securitized mortgage loans at fair value. These MBS serve as collateral for the single family bonds issued by MFA and provide the revenue source to repay these debt obligations and legally MFA cannot sell/trade the related securities until the bonds are paid in full. The Authority's rating agencies do not include GASB No. 31 valuation adjustments in their analysis of the HFA's performance. Without the required GASB No. 31 adjustment, the operating income for the period decreased $5.0 million compared to prior year.

Operating revenues decreased $53.2 million from 2012 to 2013; however, without the required GASB No. 31 adjustment operating revenues were $15.0 million less than in 2012. The low interest rate environment has continued to impact interest income-related revenue. As a result of a continued drop in MBS and mortgage loan production as well as high prepayment activity, the Authority experienced a decrease in mortgage interest revenue of approximately $7.5 million in the current year. The Authority experienced a decrease of $6.7 million for other revenue due to nonrecurring investment gains related to an MBS sale transaction in 2012, and lower realized market value gains on investments in the State Investment Council Funds Program. In 2013, nonoperating revenues increased by $3.0 million in comparison to 2012 due to the recognition of a Housing Trust Fund appropriation received from the State of New Mexico in 2013.

Debt Administration

Most of the debt issued by the Authority to fund affordable housing activities in New Mexico is tax-exempt and is issued under the Internal Revenue Code and Treasury Regulations governing either mortgage revenue bonds or residential rental projects. The Federal Tax Reform Act of 1986 imposes an annual ceiling on the aggregate amount of federally tax-exempt private activity bonds or Private Activity Bond Cap (Bond Cap). Each year, the New Mexico State Board of Finance receives and allocates Bond Cap based on the federal formula to both single and multifamily housing for tax-exempt bonding purposes.

The Authority continually investigates and utilizes financing and debt management techniques designed to achieve its goals of minimizing interest expense and efficiently utilizing Bond Cap while managing risk and responding to changing capital markets. The Authority evaluates other innovative financing structures and asset/liability management strategies as needed to maximize earnings in both the long and short term. This includes using existing liquidity to warehouse loans in order to minimize bond acquisition fund negative arbitrage, utilizing pass-through bond structures, refining internal processes for ensuring that cash received in relation to prepayments is used to redeem bonds as quickly as possible, and reviewing callable programs to determine if earnings could be maximized by eliminating debt and using the assets to generate more income or as subsidy to upcoming bond issues creating more competitive mortgage rates. The Authority reviews and monitors program parity, cash flow projections, prepayment speeds and internal rates of return. Management of the overall bond portfolio and related assets is an ongoing process. During fiscal year 2014, the Authority issued $28.0 million of Single Family Mortgage Program revenue bonds of which approximately $12.5 million was a bond refunding transaction. This is $63.7 million less than the $91.2 million issued in 2013. MFA did sell $98.2 million of single family first-time homebuyer mortgages during the course of the year. As noted above, the sale of loans versus issuing debt to fund the Single Family Mortgage Program has become an integral funding execution. Due to utilization of pass-through bond structures, improved timing of redeeming bonds with cash received from prepayments, the continuous lending loan origination model, and utilization of the secondary market to fund single family loans, negative arbitrage expenses decreased approximately $2.9 million this fiscal year in comparison to 2013. The Authority redeemed $163.2 million of Single Family Mortgage Program bonds due to repayments, compared to $242.4 million in 2013.

During fiscal year 2013, the Authority issued $91.2 million of Single Family Mortgage Program revenue bonds of which approximately $11.2 million was a bond refunding transaction. This is $57.2 million less than the $148.4 million issued in 2012. MFA did sell $42.2 million of single family first-time homebuyer mortgages into the secondary market during the course of the year, providing a funding mechanism for the Single Family Mortgage Program when a bond execution is not viable. Rather than funding the single family loans through bonds, the related MBS are sold into the secondary market. The current interest rate environment continues to limit the Authority's ability to issue new bonds as current interest rates for mortgage loans have been lower than interest rates on new bond issuances. The sale of loans versus issuing debt has become an integral funding execution for the Single Family Mortgage Program. During the course of this fiscal year, bond issues and mortgage rates were subsidized using zero participations generated through the NIBP program and refunding bond issues. Due to utilization of pass-through bond structures, improved timing of redeeming bonds with cash received from prepayments and the continuous lending loan origination model, negative arbitrage expenses decreased approximately $0.2 million this fiscal year in comparison to 2012. The Authority redeemed $242.4 million of Single Family Mortgage Program bonds due to repayments, compared to $280.9 million in 2012.

During fiscal year 2014, the Authority did not issue any Rental Housing Bonds, while in 2013, $7.5 million in Rental Housing Bonds were issued. In 2014, $1.6 million of Rental Housing Bonds were redeemed due to repayments compared to $6.3 million in 2013.

More detailed information about the Authority's outstanding debt obligations is presented in notes 5, 6, and 7 of the notes to the basic financial statements.

Economic Outlook

The Authority's Single Family Mortgage Program, administration of federal affordable housing programs and investment income are the main sources of revenues. During 2014, the Authority's programs and investment returns continued to be adversely affected by erratic capital markets, a continued sluggish housing market and federal fiscal policy. We did begin to see better overall economic performance this year as gross domestic product was strong and unemployment decreased.

The Authority's Single Family Mortgage Programs rely on short-term liquidity from the Master Servicers, which purchase the mortgage loans from the lenders, then securitize them into Federal National Mortgage Association (Fannie Mae) and Government National Mortgage Association (Ginnie Mae) MBS. The underlying mortgage loans are all fixed-rate, 30-year loans meeting the criteria for guarantee by Fannie Mae and Ginnie Mae. The bonds and MBSs, which provide collateral for the Single Family Mortgage Program bonds, had previously been rated AAA. However, on August 5, 2011, Standard and Poor's Rating Services downgraded the United States of America long-term rating to AA+ due to political risks and rising debt burden. A "Negative Outlook" was also placed on the rating. During 2014, S&P revised the outlook from negative to stable. As a result of the initial U.S. downgrade, Standard & Poor's lowered its rating on certain publicly financed debt issues that are credit enhanced by Fannie Mae and Ginnie Mae. Since the Authority issues single family mortgages that are backed by loans that are credit enhanced by Fannie Mae and Ginnie Mae, the majority of the Authority's single family bond programs currently reflect the U.S. government rating of AA+ with a stable outlook. To date, the Master Servicers, Fannie Mae, Ginnie Mae, and the bond investors have continued to provide liquidity without interruption to the Authority's Single Family Mortgage Programs.

The programs have historically relied on Guaranteed Investment Contracts (GIC) for the temporary investment of bond proceeds and also for the ongoing investment of monthly MBS revenues between debt service dates. The GIC providers must maintain financial strength as evidenced by their credit rating in order for the bonds to maintain their rating. The Authority continues to have difficulty maintaining and securing GIC providers for the Single Family Mortgage Programs as the market recovers and is utilizing AAAm rated money market funds when necessary. Returns on GICs and money market funds are very low, increasing the negative arbitrage experienced by the Authority for these programs. Additionally, some GIC providers have not been able to maintain their minimum required credit rating levels and this has produced some bond rating downgrades in the Authority's portfolio. This presents more of a rating risk versus a financial risk for the Authority, as these funds remain fully invested and cash flows are monitored closely. Due to the lack of GIC providers and historical low reinvestment rates, Standard and Poor's, the Authority's primary rating agency, revised their stress test criteria related to housing bonds and now require that cash flows be run assuming a zero percent reinvestment rate. At this time, all the Authority's single family bonds have met the required cash flow stress tests.

The Authority's investments outside of the Single Family Mortgage Programs are conservative, and include the AAAm rated New Mexico State Treasurer's Office Local Government Investment Pool and internal loan warehousing for short-term investments, highly liquid and marketable intermediate-term Treasury and Agency obligations, and for long-term investment, the nonrated State Investment Council Investment Funds Program utilizing a corporate investment grade bond fund (80%) and a large cap equities fund (20%). To improve investment returns, the Authority has also invested in its own MBS as bond programs become callable. This strategy is helping to improve the investment income picture as that portion of our investment portfolio is yielding close to 5.6% serving as a good intermediate term investment option for the Authority. During this fiscal year, the Treasury and Agency obligations provided yields of 1.4%. Investments in the State Investment Council Investment Funds Program experienced $1.6 million in fair market value gains in comparison to 2013 when fair market value losses were $0.2 million. There continues to be extreme market volatility as evidenced by this year over year fluctuation. The overall rate of return on the Authority's State Investment Council Investment Funds Program long-term portfolio for 2014 was 7.4%.

Moving into the new year, the Authority expects to continue to utilize both the secondary market and bond issuance to fund the Single Family Mortgage Program depending on market conditions. The cost of funds in the traditional tax-exempt bond market is expected to be less prohibitive as it is strongly believed we will begin to see an increasing interest rate environment, albeit slow, in FY2015 thus providing more opportunities for the Authority to fund its Single Family Mortgage Program through the issuance of bonds. This not only provides a mechanism for growing the Authority's earning asset base but also provides long-term administrative fee cash flows rather than onetime transaction fees related to loan sales. There will still be challenges in competing with the historically low mortgage interest rates currently offered in the traditional mortgage market. If borrowers have good credit and are not in need of down payment assistance, they may be able to get better mortgage rates elsewhere. The Authority does, however, believe that the down payment assistance programs will help in maintaining program demand and viability.

Market interest rates have an effect on both the Single Family Mortgage Programs and investment income revenues. If interest rates continue at current levels, the Authority expects single family bond program administrative fees and investment income to decrease slightly. If interest rates rise, the Authority expects single family bond program administrative fees and investment income to increase as new loans are originated and new investments are purchased at the higher levels. If interest rates fall, the Authority expects single family bond program administrative fees and investment income to decrease as new loans are originated and new investments are purchased at the lower levels. Interest rate decreases are not anticipated as it is believed that traditional mortgage and reinvestment rates have bottomed out. The Authority expects that the drop in mortgage interest rates over the last few years will continue to cause high prepayments on higher rate mortgages, and conversely, an increase in mortgage interest rates to cause a decrease in prepayments. The Authority uses these prepayments to call the corresponding series bonds. The current economic environment may, however, limit the ability of borrowers to refinance or prepay loans due to falling real estate values or a borrower's personal financial situation. The Authority anticipates that federal funding levels for affordable housing programs are still at risk and could continue to decline, thus decreasing administrative fee income related to those programs.

This financial report is presented to provide our constituents and investors with a general overview of the Authority's finances and to demonstrate the Authority's financial accountability over its resources. If you have questions about the report or need additional financial information, please contact the Deputy Director of Finance and Administration at New Mexico Mortgage Finance Authority, 344 4th Street SW, Albuquerque, New Mexico 87102, or visit our website at www.housingnm.org.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013 (as restated note 1(b))**
Current assets:			
Cash and cash equivalents (note 2):			
Unrestricted	$	21,788	21,791
Restricted		12,719	17,380
Total cash and cash equivalents		34,507	39,171
Accrued interest receivable		4,075	4,538
Other current assets		1,595	1,773
Total current assets		40,177	45,482
Noncurrent assets:			
Restricted cash and cash equivalents (note 2)		26,470	59,196
Investments (note 2):			
Restricted investments		13,114	11,929
Unrestricted investments		48,368	43,078
Unrealized gain on restricted and unrestricted investments		834	633
Total investments, net		62,316	55,640
Restricted securitized mortgage loans, net (notes 2 and 3):			
Securitized mortgage loans, net		712,249	815,718
Unrealized gain on securitized mortgage loans		43,018	40,423
Restricted securitized mortgage loans, net		755,267	856,141
Mortgage loans, net (note 3):			
Restricted mortgage loans, net		102,212	101,947
Restricted trust funds mortgage loans, net		11,664	11,108
Unrestricted mortgage loans, net		66,487	65,748
Total mortgage loans, net		180,363	178,803
Capital assets, net (note 4)		1,134	1,253
Intangible assets		68	93
Other noncurrent assets		553	754
Total noncurrent assets		1,026,171	1,151,880
Total assets		1,066,348	1,197,362
Deferred outflows of resources:			
Refunding of debt		1,301	1,338
Total assets and deferred outflows of resources	$	1,067,649	1,198,700

(Continued)

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

Liabilities and Net Position	**2014**	**2013 (as restated note 1(b))**
Current liabilities:		
Accrued interest payable	$ 5,103	6,595
Accounts payable and other accrued expenses (note 8)	5,261	4,392
Compensated absences (note 9)	356	326
Current portion of bonds payable (notes 5, 7, and 9)	14,691	20,186
Total current liabilities	25,411	31,499
Noncurrent liabilities (note 9):		
Bonds payable, net (notes 5 and 7)	797,870	933,503
Notes payable (notes 6 and 7)	2,500	1,500
Accrued arbitrage rebate	82	78
Other noncurrent liabilities	237	231
Total noncurrent liabilities	800,689	935,312
Total liabilities	826,100	966,811
Commitments and contingencies (note 13)		
Net position:		
Net investment in capital assets	(681)	(672)
Restricted for debt service	83,872	81,079
Restricted for land title trust and housing trust	25,881	24,512
Unrestricted (note 12)	132,477	126,970
Total net position (as restated, note 1(b))	241,549	231,889
Total liabilities and net position	$ 1,067,649	1,198,700

See accompanying notes to financial statements.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013 (as restated note 1(b))
Operating revenues:			
Interest on mortgage loans and securitized mortgage loans	$	41,279	45,875
Interest on securities and investments		3,110	4,176
Net increase (decrease) in fair value of investments		2,795	(39,947)
Housing program income		1,204	952
Program servicing fees		354	362
Loan and commitment fees		198	1,273
Administrative fees		5,031	2,737
Other revenues		1,449	159
Total operating revenues		55,420	15,587
Operating expenses:			
Interest expense		35,137	42,200
Bond issuance costs		422	777
Provision for loan losses		629	(161)
Administrative and other expenses		9,783	8,048
Total operating expenses		45,971	50,864
Operating (loss) income		9,449	(35,277)
Nonoperating revenues (expenses):			
Grant income		42,228	47,174
Grant expense		(42,228)	(47,174)
State Appropriation		200	3,000
Land title trust contributions		11	9
Total nonoperating revenues		211	3,009
Change in net position		9,660	(32,268)
Total net position, beginning of year (as restated, note 1(b))		231,889	264,157
Total net position, end of year	$	241,549	231,889

See accompanying notes to financial statements.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Purchase of loans	$	(12,955)	(13,417)
Receipts of loan repayments		10,840	9,910
Loan and commitment fees		198	1,273
Mortgage interest received		44,516	51,116
Purchase of securitized mortgage loans		(15,409)	(103,343)
Principal repayment of securitized mortgage loans		115,937	197,719
Receipts for services		3,833	3,607
Payments to employees for services		(5,523)	(5,211)
Payments to suppliers of goods or services		(3,180)	(2,828)
Other receipts (payments)		3,117	726
Net cash flows from operating activities		141,374	139,552
Cash flows from noncapital financing activities:			
Proceeds from sale of bonds and notes payable		35,009	101,973
Repayment and refunding of bonds and notes payable		(170,897)	(249,689)
Payment of interest on bonds and notes		(40,631)	(49,031)
Payment of arbitrage rebate, net		4	5
Payment for bond issuance costs		(420)	(779)
State Appropriations		200	3,000
Receipt of grant income		42,668	47,277
Payment of grant to subrecipients		(42,668)	(47,277)
Contributions to land title trust		11	9
Net cash flows from noncapital financing activities		(176,724)	(194,512)
Cash flows from capital financing activities:			
Purchases of capital assets		(92)	(31)
Proceeds from the sale of capital assets		2	1
Repayment of capital debt		(120)	(115)
Payment for interest on capital debt		(84)	(88)
Net cash flows from capital financing activities		(294)	(233)
Cash flows from investing activities:			
Purchase of other real estate owned		(49)	(39)
Purchase of investments		(25,374)	(74,154)
Proceeds from maturity and sale of investments		21,662	69,104
Investment interest income		2,028	3,223
Discount (premium) on investments		(11)	—
Gain/loss – sale of securities		(2)	—
Net cash flows from investing activities		(1,746)	(1,866)
Net decrease in cash and cash equivalents		(37,390)	(57,059)
Cash and cash equivalents, beginning of year		98,367	155,426
Cash and cash equivalents, end of year	$	60,977	98,367
Current cash and cash equivalents	$	34,507	39,171
Noncurrent cash and cash equivalents		26,470	59,196
Cash and cash equivalents, end of year	$	60,977	98,367

(Continued)

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013 (as restated note 1(b))
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	$	9,449	(35,277)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Net increase (decrease) in the fair value of investments		(2,795)	39,947
Bond issuance costs		422	777
Loan and commitment fees		(198)	(1,273)
Amortization of securitized mortgage loans and mortgage loan discounts/premiums		2,669	2,390
Loss (gain) on sale of assets		250	108
Depreciation and amortization expense		236	282
Provision of loan losses		629	(161)
Investment interest income		(3,110)	(4,176)
Interest on bonds and notes payable		35,137	42,200
Changes in assets and liabilities:			
Accrued interest receivable on securitized mortgage loans and mortgage loans		371	538
Other current assets		(178)	263
Other noncurrent assets		(201)	72
Accounts payable and other accrued expenses		869	(251)
Compensated absences		30	19
Other noncurrent liabilities		6	5
Securitized mortgage loans, net cost		99,274	97,731
Mortgage loans		(1,486)	(3,642)
Net cash flows from operating activities	$	141,374	139,552
Supplemental disclosure:			
Other real estate acquired through foreclosure	$	36	35

See accompanying notes to financial statements.

(1) Basis of Accounting and Summary of Significant Accounting Policies

(a) Reporting Entity

New Mexico Mortgage Finance Authority (the Authority) is a semi-autonomous instrumentality of the State of New Mexico (the State), created April 10, 1975 under the Mortgage Finance Authority Act (the Act) enacted as Chapter 303 of the Laws of 1975 of the State. Pursuant to the Act, the Authority is authorized to undertake various programs to assist in the financing of housing for persons of low and moderate income in the State. The Authority is led by seven board members. Four of the board members are from the private sector and are appointed by the governor with the advice and consent of the state senate. Three are ex-officio voting members who serve by virtue of their state office, including the lieutenant governor, the state's attorney general and the state treasurer.

On September 19, 2007, the Authority established the not-for-profit legally separate entity of the New Mexico Affordable Housing Charitable Trust (the Trust), which was created to support the purpose and programs of the Authority. The Authority acting through its board of directors in accordance with the Act, is the Trustee. The Authority supports the ongoing operations of the Trust with an annual contribution in the amount of the cost of operations. As such, the Trust is determined to be a blended component unit as defined by Governmental Accounting Standards Board (GASB) Statement No. 39 *Determining Whether Certain Organizations Are Component Units – an Amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*.

For financial reporting purposes, the Authority is considered a discretely presented component unit of the State of New Mexico in accordance with GASB No. 14 and No. 61.

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

(b) Basis of Presentation

The Authority presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34); GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Effective October 1, 2012, the Authority adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements* (GASB No. 62), which supersedes GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The adoption of GASB No. 62 had no impact on the Authority's propriety fund accounting policies.

In fiscal year 2013, the Authority adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63), which establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). GASB No. 63 requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Authority's financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Balance Sheets" to "Statement of Net Position."

Effective October 1, 2013, the Authority adopted GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The impact of this Statement to the Authority is a decrease of beginning net position of approximately ($6.6) million for fiscal year 2013. As per the guidance, the Authority recognized previously deferred bond issuance costs and loan commitment fees. Additionally, the loss of refunded debt transactions was reclassified from Bonds Payable to Deferred Outflows of Resources.

The following summarizes the impact of the restatement to previously reported balances:

Statement of net position as of September 30, 2013	As originally reported	As restated after GASB 65
	(Dollars in thousands)	
Securitized mortgage loans, net	$ 808,574	$ 815,718
Unrealized gain on securitized mortgage loan	47,567	40,423
Unrestricted mortgage loans, net	64,078	65,748
Bond issuance costs, net	7,058	—
Total assets	1,202,750	1,197,362
Deferred outflow–refunding of debt	—	1,338
Non–current bonds payable, net	932,165	933,503
Total liabilities	965,473	966,811
Restricted for debt service	86,928	81,079
Unrestricted net position	126,509	126,970

Statement of revenues, expenses and changes in net position for the year ended September 30, 2013		As originally reported	As restated after GASB 65
		(Dollars in thousands)	
Net decrease in fair value of investment	$	(40,916)	(39,947)
Loan and commitment fees		2,312	1,273
Interest expense		42,199	42,200
Amortization of bond issuance costs		2,085	777
Operating (loss) income		(36,514)	(35,277)
Total net position, beginning of year		270,782	264,157
Total net position, end of year		237,277	231,889
Cumulative effect of implementation of GASB 65		—	(6,625)

(c) Basis of Accounting

For financial purposes, the Authority is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

(d) 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.

(e) Programs

The following describes the nature of the programs maintained by the Authority:

- Single Family Mortgage Programs – Accounts for the proceeds from bonds, the debt service requirements of the bonds, and the related mortgage loans for single-family, owner-occupied housing in New Mexico. Each single family bond indenture is accounted for as a segment. See note 18 for segment financial statements.
- Rental Housing Programs – Accounts for the proceeds from bonds, the debt service requirements of the bonds, and the related loans to qualified lenders for the purpose of financing multifamily rental housing facilities in New Mexico. Each multifamily bond indenture is accounted for as a segment. See note 18 for segment financial statements.
- General Accounts – Accounts for assets, liabilities, revenues, and expenses not directly attributable to a bond program. Most of the bond resolutions of the programs permit the Authority to make cash transfers to the general accounts after establishing reserves required by the bond resolutions. The general accounts financially support the bond programs when

necessary. The general accounts include proprietary loan programs developed by the Authority to meet the needs of low- and moderate-income borrowers not served by traditional lending programs. This group of accounts is referred to as the Housing Opportunity Fund and includes the ACCESS Loan program, HERO Loan program, Primero program, Partners program, Build It! Loan Guaranty program, and several down payment assistance programs.

- Housing Programs – Accounts for activities and programs financed by federal and state grants over which the Authority exercises fiscal and administrative control. The following is a brief description of the significant programs:

  – *Low-Income Housing Tax Credit Program (LIHTC)* – The LIHTC program was established to promote the development of low-income rental housing through tax incentives rather than direct subsidies. The LIHTC is a 10-year federal tax credit against a taxpayer’s ordinary income tax liability that is available to individuals (directly or through partnerships) and corporations who acquire or develop and own qualified low-income rental housing.

  – *HOME Investment Partnership Program (HOME)* – Congress created the HOME program as part of the National Affordable Housing Act of 1991. The Authority administers the federal funds to carry out program activities related to down payment assistance, homeowner and rental rehabilitation, and multifamily rental housing finance.

  – *Section 8 Program* – The Section 8 program provides housing assistance payments to participating owners on behalf of eligible tenants to provide decent, safe, and sanitary housing for very low-income families at rents they can afford.

  – *The Weatherization Assistance Program (WAP)* – WAP is a long-term grant program funded by the U.S. Department of Energy and utility companies. The purpose of the program is to make low-income households more energy efficient, thereby reducing the utility bills of these families. The funds may be used for leakage reduction, incidental repairs, health and safety measures, insulation, storm windows and doors, and energy efficiency training.

  – *The Low-Income Home Energy Assistance Program (LIHEAP)* – LIHEAP provides low-income households with a one time cash benefit to help pay their utility bills. Up to 15% of the program grant, the only portion administered by the Authority, can be used for rehabilitation and can be combined with the WAP funds.

  – *The Emergency Solutions Grants Program (ESG)* – ESG provides assistance to units of local government or nonprofit organizations to improve the quality of existing emergency shelters, to help meet the costs of operating emergency shelters, and to provide certain essential social services to homeless individuals and families.

  – *Housing Opportunities for Persons with AIDS Program (HOPWA)* – The HOPWA program is designed to provide states and localities with resources and incentives to devise long-term strategies for meeting the housing needs of persons with acquired immune deficiency syndrome (AIDS) or related diseases.

– *Neighborhood Stabilization Program (NSP)* – The primary objective of this program is the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.

– *Tax Credit Assistance Program (TCAP) (Recovery Act Funded)* – TCAP provided grant funds to State housing credit agencies for capital investments in rental projects that received an award of Low-Income Housing Tax Credits (LIHTC) during the period from October 1, 2006 to September 30, 2009, and required additional funding to be completed and placed into service in accordance with the LIHTC requirements of Section 42 of the Internal Revenue Code (IRC).

– *New Mexico Housing Trust Fund (HTF)* – The HTF's purpose is to provide flexible funding for housing initiatives in order to produce significant additional housing investment in the State. The fund consists of all distributions and appropriations made to the fund. Earnings of the fund shall be credited to the fund, and unexpended and unencumbered balances in the fund shall not revert to any other fund. The Authority is the trustee for the fund. The fund receives revenue from the following recurring sources: 1) appropriations and transfers from the State of New Mexico; 2) any other money appropriated or distributed to the fund; 3) any private contributions to the fund; or 4) earnings of the fund. Money in the fund is appropriated to the Authority for the purposes of carrying out the provisions of the New Mexico Housing Trust Fund Act, which are to provide affordable residential housing to persons of low or moderate income.

– *Land Title Trust Fund (LTTF)* – Pursuant to the Land Title Trust Fund Act, depository institutions that maintain trust or escrow accounts for customers may establish and make available pooled interest-bearing transaction accounts for title company escrows. The interest earned from this program is forwarded to the LTTF. The account agreement between the depositor and the financial institution shall expressly provide for the required remittance of interest. The Authority is trustee for the fund. The trustee shall deposit in the fund money received by it pursuant to the Low-Income Housing Trust Act and the Land Title Trust Fund Act, and use funds to finance in whole or part any loans or grant projects that will provide housing for low-income persons or for other uses specified in the Land Title Trust Fund Act.

(f) Cash and Cash Equivalents

Certain cash, cash equivalents, and investments are designated by the board of directors of the Authority for specific purposes (note 12). For purposes of the statements of cash flows, the Authority considers all cash on hand and in banks and all highly liquid securities and investments purchased with an original maturity of three months or less held in accounts used primarily for the payment of debt service to be cash equivalents.

Restricted cash and cash equivalents include fixed-rate investment agreements, which represent funds invested in unsecured nonparticipating contracts with financial institutions, and are valued at the contract amounts. Such investments are considered highly liquid with an original maturity of three months or less held in accounts, which are used primarily for the payment of debt service. Accordingly, such investments are treated as cash equivalents.

(g) Unrestricted and Restricted Investments

Unrestricted and restricted investments include U.S. government obligations, obligations of government-sponsored entities, mortgage-backed securities (MBSs), and amounts in investment pools of the New Mexico State Investment Council. These securities are stated at fair value based upon quoted market prices and changes in the fair value are reported in the statements of revenue, expenses, and changes in net position as net increase (decrease) in fair value of investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB No. 31).

(h) Securitized Mortgage Loans

Securitized mortgage loans consists primarily of Fannie Mae and Ginnie Mae MBSs, which were pooled and securitized by a contract servicer utilizing Single Family Mortgage Program loans purchased by the Authority. These securities are stated at fair value, and changes in the fair value are reported as revenue in the statements of revenues, expenses, and changes in net position as net increase (decrease) in fair value of investments, in accordance with GASB No. 31. The bond issue trustees use a third-party pricing service to compute the MBS fair value.

(i) Mortgage Loans

Mortgage loans receivable are carried at the unpaid principal balance outstanding less an allowance for estimated loan losses. Mortgage loans are secured by first liens on the related properties, with the exception of down payment and closing cost assistance (DPA) loans. Mortgage loans purchased by the Authority are required to be insured by the Federal Housing Administration (FHA) or private mortgage insurance, or guaranteed by the Veterans' Administration (VA). Conventional loans with a loan-to-value ratio of 80% or less do not require insurance. These policies insure, subject to certain conditions, mortgage loans against losses not otherwise insured, generally for specified percentages of the principal balance due plus accrued interest and other expenses sustained in preservation of the property.

For qualifying borrowers in the Single Family Mortgage Programs, the Authority offers loans to provide DPA. DPA loans are secured by second liens. Additionally, included in mortgage loans as of September 30, 2014 and 2013 were \$5.4 million and \$5.7 million, respectively, of loans to borrowers of certain nonprofit organizations, which are subject to reimbursement provisions in lieu of insurance.

(j) Allowance for Mortgage Loan Losses

Losses incurred on mortgage loans are charged to the allowance for mortgage loan losses. The provision for loan losses is charged to expense when, in management's opinion, the realization of all or a portion of the loans or properties owned is doubtful.

In evaluating the provision for loan losses, management considers the age of the various loan portfolios, the relationship of the allowances to outstanding mortgage loans, collateral values, insurance claims, government guarantees, and economic conditions.

Management of the Authority believes that the allowance for mortgage loan losses is adequate. While management uses available information to recognize losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

(k) Interest on Mortgage Loans

Interest on mortgage loans is accrued based upon the principal amounts outstanding net of service fee expenses of approximately $99,000 and $105,000 as of September 30, 2014 and 2013, respectively. Single family mortgage loans continue to accrue interest through foreclosure since loans are insured, and interest is collected through insurance proceeds. Rental Housing mortgage loans are placed on nonaccrual after 90-days delinquency.

(l) Origination and Commitment Fees

Origination and commitment fees, net of costs, represent compensation received for designating funds for lenders. The Authority recognizes these on an accrual basis.

(m) Bond Issuance Costs

Bond issuance costs, discounts, and premiums are expensed in the period incurred.

(n) Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Furniture, equipment, and software purchased with a unit cost of $5,000 or more and an estimated useful life greater than one year are capitalized and depreciated based on the straight-line or the sum-of-the-years' digits method over the estimated useful lives of the assets, which range from 1 to 25 years. Depreciation expense is not computed on assets under construction until the asset is put into service. Furniture and equipment purchases less than $5,000 or with lives of one year or less, and maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

(o) Intangible Assets

Intangible assets represent 1) Purchased servicing rights – the fees the Authority pays to acquire the servicing of loan portfolios. The purchased servicing rights are capitalized and amortized on the effective-interest method over the estimated remaining life of the acquired portfolio; and 2) Internally generated computer software and commercially available software modified using more than minimal incremental effort before being placed into service that would be capitalized if it meets the $5,000 capitalization threshold and has a useful life of more than one year. If not, related outlays are expensed. The assets are recorded at historical cost and amortized over its useful life once it has been placed in service (three years).

(p) Accrued Arbitrage Rebate

Earnings on certain investments are subject to the arbitrage rebate requirements of the IRC. Accrued arbitrage rebate represents the estimated excess earnings on these investments that must be rebated to the U.S. Treasury Department.

Arbitrage rebate amounts that are the result of investment yields are recorded as a reduction of interest income. Arbitrage rebate amounts that result from gains on sales of investment securities are recorded as a reduction to the net increase (decrease) in the fair value of investments.

(q) Advances on Revenue

Advances on revenue consist primarily of advances from contracts and grants. Revenues are recognized when all applicable eligibility requirements have been met. Advances on revenue are reflected in current liabilities in the accompanying statements of net position.

(r) Compensated Absences

Qualified Authority employees are entitled to accrue vacation leave and sick leave based on their full-time equivalent status.

Vacation Leave

Full-time and part-time employees are eligible to accrue vacation leave based on their length of employment and hours regularly scheduled up to a maximum of 280 hours. At September 30 of each year, any accumulated hours in excess of 280 not taken are forfeited. Accrued vacation leave will be paid to an employee upon termination only after six months of employment. Accrued vacation leave is computed by multiplying each employee’s current hourly rate by the number of hours accrued.

Sick Leave

Full-time and part-time employees are eligible to accrue sick leave each pay period based on hours regularly scheduled. Accrued sick leave may be carried over to the next fiscal year. Full-time employees may be paid in cash for accrued sick leave in excess of 400 hours (120 hours maximum) on the first full pay period in January and/or July. The hours will be paid at a rate equal to 50% of the employee’s hourly wage. Unused sick leave will not be paid to an employee upon termination. Accrued sick leave is computed by multiplying 50% of each employee’s hourly rate by the number of hours accrued in excess of 400.

(s) Net Position

Net position is classified as follows:

Net investments in capital assets represent the Authority's total investment in capital assets, net of outstanding debt related to those capital assets.

Restricted for debt service represents those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. The Authority is legally or contractually obligated to spend these funds in accordance with the restrictions imposed by third parties.

Restricted for land title trust and housing trust represents those funds on which restrictions have been imposed that limit the purposes for which such funds can be used. The Authority is legally or contractually obligated to spend these funds for the purposes of carrying out the provisions of the New Mexico Housing Trust Fund Act, the Low-Income Housing Trust Act, and the Land Title Trust Fund Act.

Unrestricted consist of those operating funds over which the board of directors retains full control to use in achieving any of its authorized purposes.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

(t) Revenues and Expenses

Revenues are classified as operating or nonoperating according to the following criteria:

Operating revenues include activities that have the characteristics of an exchange transaction as well as those that relate directly to programs to assist in the financing of housing for persons of low and moderate income in the State of New Mexico such as a) loan origination and commitment fees; b) program servicing fees; and c) administration fees. Operating revenues also include interest income since lending activities constitute the Authority's principal ongoing operations.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as grant award revenues. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33). Revenues are recognized when all applicable eligibility requirements have been met, specifically when expenditures related to the grant awards have been incurred, submitted, and approved for payment.

Expenses are classified as operating or nonoperating according to the following criteria:

Operating expenses include activities that have the characteristics of an exchange transaction such as a) employee salaries, benefits, and related expense; b) utilities, supplies, and other services; c) professional fees; and d) depreciation expenses related to capital assets. Operating expenses also

(Continued)

include interest expense since lending activities constitute the Authority's principal ongoing operations.

Nonoperating expenses include activities that have the characteristics of nonexchange transactions such as grant award expenses, which are defined as nonoperating expenses by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34.

(u) Income Taxes

The income the Authority earns in the exercise of its essential government functions is excluded from federal income tax under Section 115(1) of the IRC. The Trust is exempt from federal income tax under Section 501(c)(3) of the IRC. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

(2) Cash, Cash Equivalents, and Investments

As of September 30, the carrying value of cash and cash equivalents includes the following (in thousands):

		2014	2013
Cash on deposit at financial institutions	$	17,365	7,653
Cash on deposit at New Mexico State Treasurer		4,625	10,131
Cash equivalents not considered deposits:			
Money market accounts		—	22
Money market funds		20,938	40,523
Repurchase agreements		1,128	5,275
Guaranteed investment contracts		16,921	34,763
	$	60,977	98,367

(a) Investment Policy

The Authority's investment policy requires all investments be made in accordance with the prudent investor rule with a primary objective to preserve capital and secondarily to achieve the highest market yield. Investments will be diversified to the extent permitted in Section 58, NMSA 1978 (MFA Act), and Section 6-8-7, NMSA 1978, and as prescribed in its various bond resolutions and trust indentures.

Investments may be made in any investment instrument acceptable under and/or required by any bond resolution or indenture; in obligations of any municipality of New Mexico or the State of New Mexico or the United States of America, rated "AA" or better; in obligations guaranteed by the State of New Mexico or the United States of America; in obligations of any corporation wholly owned by the United States of America; in obligations of any corporation sponsored by the United States of America, which are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System; in certificates of deposit or time deposits in banks qualified to do business in New Mexico; as otherwise provided in any trust indenture securing the issuance of the Authority's bonds; in contracts for the purchase and sale of obligations of any municipality of New Mexico or the State of New Mexico or the United States of America; in the State of New Mexico Office of the Treasurer Local Short-Term Investment Fund; or in the State of New Mexico State Investment Council Investment Funds Program.

The State Treasurer Local Government Investment Pool (LGIP) is not U.S. Securities and Exchange Commission (SEC) registered. The State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) through 6-10-10(O) and Sections 6-10-10(1)A and E NMSA 1978. The pool does not have unit shares. At the end of each month, all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. The end of the fiscal year credit risk rating and the weighted average maturity (interest rate risk in number days) is available on the State Treasurer's Web site at www.nmsto.gov. Participation in the local government pool is voluntary.

(b) Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The investment policy requires consideration of the creditworthiness in selecting financial institutions. At September 30, 2014 and 2013, the Authority's bank balance was $11,356,000 and $7,836,000, respectively. Of this amount at September 30, 2014 and 2013, $250,000 and $272,000, respectively, was insured by the Federal Deposit Insurance Corporation (FDIC). The total amounts subject to custodial credit risk at September 30, 2014 and 2013 are $1,519,000 and $2,873,000, respectively. Management does not believe the remaining $9,392,000 and $4,691,000 is subject to custodial credit risk at September 30, 2014 and 2013, respectively.

All of the Authority's investments are insured, registered, or held by the Authority or its agent in the Authority's name.

The Authority administers public funds for the State Homeless, Innovation in Housing Awards, and Energy Savers Programs. New Mexico statutes require financial institutions to pledge qualifying collateral to the Authority to cover at least 50% of uninsured deposits. All collateral is held by third parties in safekeeping. Additionally, the Authority obtains from each bank that is a depository for public funds, which are in repurchase agreements, pledged collateral in an aggregate amount at least equal to 102% of the public money in each account. No security is required for the deposit of public money that is insured by the FDIC. As of September 30, 2014 and 2013, the Authority had $2,875,000 and $2,450,000, respectively, of public funds on deposit that are insured by FDIC or fully collateralized by collateral held by the bank in the Authority's name.

(c) Investment Interest and Credit Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy requires 1) staggered maturities to avoid undue concentrations of assets in a specific maturity sector, 2) stable income, 3) adequate liquidity to meet operations and debt service obligations, and 4) diversification to avoid overweighting in any one type of security.

The Authority's securitized mortgage loans are primarily mortgage loans originated under various bond resolutions that have been pooled and securitized by a servicer under contract to the Authority (note 1(h)). Upon securitization, these primarily Ginnie Mae and Fannie Mae securities are then purchased by the bond issue trustee utilizing the proceeds of the respective bonds. The bonds in turn are secured, respectively, by the securities purchased with the bond proceeds (note 5). The fixed-rate securitized mortgage loans are sensitive to changes in interest rates, which may result in prepayments of the underlying mortgages.

The Authority had the following investments and maturities at September 30, 2014 and 2013 (in thousands):

	September 30, 2014					
		Investment maturities (in years)				
Investment type	**Fair value**	**Less than 1**	**1–5**	**6–10**	**More than 10**	**Not available**
Money market funds	$ 20,938	20,938	—	—	—	—
Repurchase agreements	1,128	1,128	—	—	—	—
Guaranteed investment contracts	16,921	14,233	82	—	2,606	—
Internal state investment pools:						
State Treasurer	4,625	4,625	—	—	—	—
State Investment Council	33,589	—	—	—	—	33,589
U.S. agencies	12,908	—	12,908	—	—	—
Securitized mortgage loans:						
Unrestricted	10,157	—	—	—	10,157	—
Restricted	755,267	—	14	189	755,064	—
	$ 855,533	40,924	13,004	189	767,827	33,589

	September 30, 2013					
		Investment maturities (in years)				
Investment type	**Fair value**	**Less than 1**	**1–5**	**6–10**	**More than 10**	**Not available**
Money market funds	$ 40,523	40,523	—	—	—	—
Repurchase agreements	5,275	5,275	—	—	—	—
Guaranteed investment contracts	34,763	32,078	78	—	2,607	—
Internal state investment pools:						
State Treasurer	10,131	10,131	—	—	—	—
State Investment Council	31,255	—	—	—	—	31,255
U.S. agencies	11,893	2,033	9,860	—	—	—
Securitized mortgage loans:						
Unrestricted	7,733	—	—	—	7,733	—
Restricted	856,141	—	30	—	856,111	—
	$ 997,714	90,040	9,968	—	866,451	31,255

The following tables provide information on the credit ratings associated with the Authority's investments in debt securities at September 30, 2014 and 2013 (in thousands):

	September 30, 2014						
Investment type	**Fair value**	**AAA**	**AA**	**A**	**U.S. government guaranteed**	**Not rated**	**Not available**
Money market funds	$ 20,938	20,938	—	—	—	—	—
Repurchase agreements	1,128	—	—	—	—	1,128	—
Guaranteed investment contracts	16,921	521	14,687	1,713	—	—	—
Internal state investment pools:							
State Treasurer	4,625	4,625	—	—	—	—	—
State Investment Council	33,589	—	—	—	—	—	33,589
U.S. agencies	12,908	—	12,908	—	—	—	—
Securitized mortgage loans:							
Unrestricted	10,157	—	—	—	10,157	—	—
Restricted	755,267	—	149,452	—	605,815	—	—
	$ 855,533	26,084	177,047	1,713	615,972	1,128	33,589

	September 30, 2013						
Investment type	**Fair value**	**AAA**	**AA**	**A**	**U.S. government guaranteed**	**Not rated**	**Not available**
Money market funds	$ 40,523	40,523	—	—	—	—	—
Repurchase agreements	5,275	—	—	—	—	5,275	—
Guaranteed investment contracts	34,763	556	32,547	1,660	—	—	—
Internal state investment pools:							
State Treasurer	10,131	10,131	—	—	—	—	—
State Investment Council	31,255	—	—	—	—	—	31,255
U.S. agencies	11,893	—	11,893	—	—	—	—
Securitized mortgage loans:							
Unrestricted	7,733	—	—	—	7,733	—	—
Restricted	856,141	—	176,414	—	679,727	—	—
	$ 997,714	51,210	220,854	1,660	687,460	5,275	31,255

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. The following issuers and their respective percentage of total investments represent greater than 5% of the Authority's total investments reported on the statement of net position as of September 30, 2014 and 2013, respectively, Ginnie Mae 75% and 76%, and Fannie Mae 19% and 20%.

(3) Mortgage Loans

Mortgage loans reflected in the statement of net position consist of the following as of September 30 (in thousands):

		2014	2013
Total mortgage loan principal outstanding	$	182,876	181,451
Less:			
Allowance for mortgage loan losses		(2,513)	(2,648)
Mortgage loans, net	$	180,363	178,803

An analysis of the allowance for mortgage loan and real estate owned losses is as follows for the year ended September 30 (in thousands):

		2014	2013
Beginning balance	$	2,648	3,380
Provision for loan losses		629	(161)
Loans written off net of recoveries		(764)	(571)
Ending balance	$	2,513	2,648

The mortgage loans have repayment terms ranging from 10 to 40 years. The stated interest rates for these programs are as follows:

Rental housing programs	0.00% to 7.02%
Other mortgage loans	0.00% to 11.60%
Second mortgage DPA loans	0.00% to 7.50%

MBSs have stated interest rates ranging from 2.75% and 9.365%.

As of September 30, 2014 and 2013, mortgage loans with pending foreclosure actions have aggregate principal balances of approximately $36,000 and $36,000, respectively. As of September 30, 2014 and 2013, mortgage loans' total delinquent aggregate principal balances are approximately $7,297,000 and $7,169,000, respectively.

As of September 30, the Authority acts as servicer for loans owned by the following entities that are not recorded in the Authority's financials (in thousands):

	2014	2013
Southwest Neighborhood Housing Services	$ 526	538
State of New Mexico Severance Tax Permanent Fund	—	1
TIWA Lending Services	2,673	2,111
AFL-CIO	2,919	2,956
Fannie Mae Loans	18,084	18,290
Habitat for Humanity/Valencia County	32	36
Ginnie Mae Loans	792	989
Southwest Community Resources	27	28
Superior Mortgage	7	7
Wallick & Volk, Inc.	13	13
Hometrust	32	32
City of Albuquerque	1,383	1,477
Ventana Fund	219	—
	$ 26,707	26,478

(4) Capital Assets

Changes in capital assets during 2014 and 2013 were as follows (in thousands):

	October 1, 2013	Additions	Dispositions	September 30, 2014
Land (nondepreciable)	$ 512	—	—	512
Building and improvements	3,041	—	—	3,041
Furniture and equipment	1,806	92	(3)	1,895
Total capital assets	5,359	92	(3)	5,448
Less accumulated depreciation:				
Building and improvements	(2,495)	(83)	—	(2,578)
Furniture and equipment	(1,611)	(128)	3	(1,736)
Total accumulated depreciation	(4,106)	(211)	3	(4,314)
Capital assets, net	$ 1,253	(119)	—	1,134

	October 1, 2012	Additions	Dispositions	September 30, 2013
Land (nondepreciable)	$ 512	—	—	512
Building and improvements	3,041	—	—	3,041
Furniture and equipment	1,807	30	(31)	1,806
Total capital assets	5,360	30	(31)	5,359
Less accumulated depreciation:				
Building and improvements	(2,406)	(89)	—	(2,495)
Furniture and equipment	(1,501)	(141)	31	(1,611)
Total accumulated depreciation	(3,907)	(230)	31	(4,106)
Capital assets, net	$ 1,453	(200)	—	1,253

(5) Bonds Payable

Bonds payable at September 30 are as follows (in thousands):

Single family mortgage programs	2014	2013
1994 Series A – 6.875% interest payable semiannually, principal due through 2025	$ 15	130
2004 Series B – 3.80% to 4.75% interest payable semiannually, principal due through 2035	—	5,995
2004 Series C – 4.40% to 5.65% interest payable semiannually, principal due through 2035	—	5,685
2004 Series D – 4.65% to 6.15% interest payable semiannually, principal due through 2035	—	6,960
2004 Series E – 4.25% to 5.50% interest payable semiannually, principal due through 2035	—	6,705
2005 Series A – 4.20% to 5.50% interest payable semiannually, principal due through 2036	5,730	7,730
2005 Series B – 4.50% to 6.10% interest payable semiannually, principal due through 2036	6,680	7,970
2005 Series C – 3.875% to 5.85% interest payable semiannually, principal due through 2037	6,595	7,935
2005 Series D – 4.05% to 5.85% interest payable semiannually, principal due through 2037	9,125	10,930
2006 Series A – 4.375% to 5.95% interest payable semiannually, principal due through 2037	12,535	16,125

Single family mortgage programs		2014	2013
2006 Series B – 4.30% to 5.90% interest payable semiannually, principal due through 2037	$	10,080	12,390
2006 Series C – 4.30% to 6.15% interest payable semiannually, principal due through 2037		11,290	14,220
2006 Series D – 4.50% to 6.00% interest payable semiannually, principal due through 2037		9,555	13,500
2006 Series E – 4.60% to 6.05% interest payable semiannually, principal due through 2038		9,105	12,545
2006 Series F – 4.35% to 6.15% interest payable semiannually, principal due through 2038		13,830	19,370
2007 Series A – 4.35% to 5.75% interest payable semiannually, principal due through 2038		9,605	14,325
2007 Series B – 3.85% to 6.00% interest payable semiannually, principal due through 2039		24,310	33,300
2007 Series C – 4.875% to 5.92% interest payable semiannually, principal due through 2039		13,215	19,420
2007 Series D – 5.00% to 6.27% interest payable semiannually, principal due through 2039		16,940	23,360
2007 Series E – 4.90% to 6.35% interest payable semiannually, principal due through 2039		18,770	25,705
2008 Series A – 4.00% to 5.60% interest payable semiannually, principal due through 2039		15,115	22,325
2008 Series B – 5.00% to 6.375% interest payable semiannually, principal due through 2039		9,630	14,395
2008 Series C – 5.00% to 6.95% interest payable semiannually, principal due through 2039		7,275	10,625
2008 Series D – 3.85% to 5.50% interest payable semiannually, principal due through 2039		16,700	22,950
2009 Series A – 3.45% to 6.00% interest payable semiannually, principal due through 2039		10,240	12,115
2009 Series B – 3.10% to 5.65% interest payable semiannually, principal due through 2039		24,215	27,530
2009 Series C – 3.40% to 5.70% interest payable semiannually, principal due through 2040		28,425	32,850
2009 Series D – 2.90% to 5.35% interest payable semiannually, principal due through 2040		25,505	29,615
2009 Series E – 3.05% to 5.30% interest payable semiannually, principal due through 2040		26,030	30,660
2010 Series A – 3.01% to 4.625% interest payable semiannually, principal due through 2040.		45,140	50,425
2011 Series A – 3.55% to 5.35% interest payable semiannually, principal due through 2041		47,960	54,265

Single family mortgage programs		2014	2013
2011 Series B – 2.77% to 5.00% interest payable semiannually, principal due through 2041	$	28,550	32,405
2011 Series C – 2.32% to 4.625% interest payable semiannually, principal due through 2041		35,955	40,355
2012 Series A – 1.00% to 4.25% interest payable semiannually, principal due through 2043		33,105	37,445
2012 Series B – 1.10% to 3.90% interest payable semiannually, principal due through 2043		49,765	55,100
2013 Series A – 2.6% interest payable semiannually, principal due through 2043		21,790	24,093
2013 Series B – 2.23% to 2.85% interest payable semiannually, principal due through 2043		31,313	35,073
2013 Series C – 4.50% interest payable semiannually, principal due through 2043		29,242	30,000
2014 Series A – 0.55% to 5.00% interest payable semiannually, principal due through 2044		14,445	—
2014 Series B – 2.75% interest payable semiannually, principal due through 2035		11,957	—
Subtotal		689,737	826,526
Unaccreted premium, net of underwriters' discount		14,669	18,282
Subtotal single family mortgage programs, net bonds payable	$	704,406	844,808

Rental housing mortgage programs		2014	2013
2002 Series A&B Multi Family Risk Sharing – Sandpiper – 5.40% to 6.75% interest payable semiannually, principal due through 2038	$	8,770	8,935
2003 Series A&B Multi Family Risk Sharing – Aztec – 5.10% to 5.35% interest payable semiannually, principal due through 2038		8,290	8,450
2004 Series A&B Multi Family Risk Sharing – NM5 – 5.05% to 5.20% interest payable semiannually, principal due through 2039		8,030	8,285
2004 Series C&D Multi Family Risk Sharing – Alta Vista – 5.25% to 6.00% interest payable semiannually, principal due through 2039		11,290	11,475
2004 Series F & G Multi Family Risk Sharing – Arioso – 4.95% to 5.85% interest payable semiannually, principal due through 2040		10,090	10,260

Rental housing mortgage programs		2014	2013
2005 Series A & B Multi Family Risk Sharing – Las Palomas – 4.70% to 4.98% interest payable semiannually, principal due through 2040	$	10,805	10,985
2005 Series C & D Multi Family Risk Sharing – Chateau – 4.70% interest payable semiannually, principal due through 2040		3,750	3,820
2005 Series E & F Multi Family Risk Sharing – Sun Pointe – 4.80% to 5.06% interest payable semiannually, principal due through 2040		11,900	12,105
2007 A & B Multi Family Risk Sharing – St. Anthony – 5.05% to 5.25% interest payable semiannually, principal due through 2042		13,343	5,600
2007 C & D Multi Family – NM Rainbow 7 – 5.85% to 10.00% interest payable semiannually, principal due through 2043		5,520	13,486
2008 A & B Multi Family – Villas de San Ignacio variable interest rate * 0.03% to 0.65% at September 30, 2014 payable monthly, principal due through 2043		8,520	8,520
2010 A & B Multi Family Risk Sharing – Villa Alegre Senior Housing – 5% interest payable semiannually, principal due through 2047		880	890
2012 A Multi Family – Gallup Apartments – 5% interest payable semiannually, principal due through 2049		4,979	3,954
Subtotal		106,167	106,765
Unaccreted premium		173	192
Subtotal rental housing mortgage programs, net bonds payable	$	106,340	106,957

* Determined on a weekly basis until adjusted to reset rates or fixed rates

Capital debt		2014	2013
2005 General Revenue Office Building Refunding Bonds – 3.750% to 4.375% interest payable semiannually, principal due through 2026	$	1,885	2,005
Unamortized discount		(70)	(81)
Subtotal net capital bonds payable	$	1,815	1,924
Total bonds payable	$	797,789	935,296
Total unaccreted premium, net of unamortized discount		14,772	18,393
Total bonds payable, net	$	812,561	953,689

(Continued)

In November 2005, the Authority began issuing single family mortgage program bonds under a General Indenture of Trust dated November 1, 2005 (the General Indenture). The bond issues under this indenture are 2005D through 2009E and 2012A through 2014B. The bonds are secured, as described in the General Indenture and the applicable amended and supplemented Series Indenture, by the revenues, moneys, investments, mortgage loans, MBSs and other assets in the accounts established under the General Indenture and each Series Indenture.

Prior to November 2005, the Authority issued bonds under separate Trust Indentures. The bonds are secured as described in each Trust Indenture by the revenues, moneys, investments, mortgage loans, MBSs and other assets in the accounts established by each respective Trust Indenture.

The single family mortgage loans purchased with the proceeds of all the bond issuances occurring during fiscal years 2014 and 2013 were pooled and packaged as mortgage loan pass-through certificates insured by GNMA or FNMA.

In December 2009, the Authority entered into a General Indenture of Trust dated December 1, 2009 to accommodate those bonds issued under the New Issue Bond Program (the NIBP Program) which was developed by the U.S. Treasury in conjunction with Fannie Mae and Freddie Mac. On December 23, 2009, the Authority issued 2009 Series Bonds (GSE Escrow Bond Purchase Program) in the amount of $155 million. The interest on the GSE Escrow Bond Purchase Program was a variable rate that produces an interest payment equal to investment earnings. The bonds were placed with Fannie Mae and Freddie Mac with bond proceeds being held in an escrow at U.S. Bank National Association. The purpose of the escrow issue was to store private activity volume cap. The escrow bonds could then be rolled out into a maximum of six bond issues to provide funds to originate mortgage loans with all rollouts being initiated by December 31, 2011.

Under the NIBP Program, a portion of the principal amount is rolled out from the GSE Escrow Bond Purchase Program and purchased by Fannie Mae and Freddie Mac. The other portion of the principal amount is sold in the primary bond market. The NIBP Program allows for relocking the interest rate on the NIBP Program portion of each roll out up to eight days prior to the bond closing. The Authority rolled out three bond issues under the NIBP Program during FY 2011. The final roll out under the NIBP program occurred during FY 2012.

During fiscal year 2014, the Authority continued to issue bonds under the General Indenture of Trust Dated November 1, 2005 as follows:

- $15.5 million Single Family Mortgage Program Class I Bonds, 2014 Series A Bonds (Non-AMT)
- $12.5 million Single Family Mortgage Program Class I Bonds, 2014 Series B (MBS Pass-Through Program) (Federally Taxable) combined with funds in the trust estates, Authority General Fund and funds from the 2005 Master Indenture Surplus Account were used to fully refund the Single Family Mortgage Program Bonds 2004 Series B through 2004 Series E. The Authority will realize a $2.0 million positive cash flow from this refunding and an economic gain of approximately $2.4 million.

Certain Mortgage Purchase Program bonds were legally defeased in 2005 and 1992 and, therefore, are not reflected on the accompanying statements of net position. The outstanding balance of these bonds totaled approximately $0 at September 30, 2014 and $30,000 at September 30, 2013. The bonds are secured, as described in the applicable bond resolution, by the revenues, moneys, investments mortgage loans, MBSs, and other assets in the accounts established by the respective bond resolutions.

(6) Notes Payable

Notes payable at September 30, 2014 and 2013 consist of the following (in thousands):

	2014	2013
July 2005 Wells Fargo note bearing interest at 2.00% through August 2016 and thereafter the greater of 6.00% or the U.S. Treasury rate minus 3.50% until the loan is fully paid	$ 650	650
November 2011 Wells Fargo note bearing interest at 2.00% through November 2021	850	850
January 2012 USDA Preservation Revolving Loan Fund (PRLF) note bearing interest at 1.00% through January 2042	1,000	—
	$ 2,500	1,500

The borrowings were made to raise capital to help fund the Primero Loan Program that provides loans for nonprofit, public, or tribal agency sponsored affordable projects.

(7) Debt Service Requirements

A summary of bond and note debt service requirements as of September 30, 2014 is as follows (in thousands):

	Bonds payable		Notes payable	
	Interest	Principal	Interest	Principal
Year(s) ending September 30:				
2015	$ 35,074	14,691	30	—
2016	34,478	15,207	42	687
2017	33,838	15,610	26	37
2018	33,159	16,369	26	37
2019	32,425	17,013	26	37
2020–2024	149,341	98,935	98	1,036
2025–2029	120,776	149,319	29	185
2030–2034	84,510	156,097	20	185
2035–2039	43,403	188,060	11	185
2040–2044	13,746	125,119	2	111
2045–2049	159	1,369	—	—
	580,909	797,789	310	2,500
Net unaccreted premium	—	14,772	—	—
	$ 580,909	812,561	310	2,500

(8) Accounts Payable and Accrued Expenses

At September 30, accounts payable and accrued expenses consist of the following:

		2014	2013
Vendor	$	2,981	2,630
Employee benefits		216	238
Advances on revenue		2,064	1,524
	$	5,261	4,392

(9) Noncurrent Liabilities and Compensated Absences

A summary of noncurrent liability and compensated absence activity for the years ended September 30, 2014 and 2013 is as follows (in thousands):

		October 1, 2013	Increases	Decreases	September 30, 2014	Current portion
Bonds payable, net	$	953,689	32,017	(173,145)	812,561	14,691
Note payable		1,500	1,000	—	2,500	—
Accrued arbitrage rebate		78	4	—	82	—
Other noncurrent liabilities		231	6	—	237	—
Compensated absences		326	381	(351)	356	356
	$	955,824	33,408	(173,496)	815,736	15,047

		October 1, 2012	Increases	Decreases	September 30, 2013	Current portion
Bonds payable, net	$	1,106,303	94,673	(247,287)	953,689	20,186
Note payable		1,500	—	—	1,500	—
Accrued arbitrage rebate		73	5	—	78	—
Other noncurrent liabilities		226	5	—	231	—
Compensated absences		307	339	(320)	326	326
	$	1,108,409	95,022	(247,607)	955,824	20,512

(10) Litigation

The Authority is involved in litigation arising in the ordinary course of business. Management believes the ultimate outcome of any litigation will not result in a material adverse impact on the Authority's financial statements.

(11) Employee Benefit Plan

The Authority sponsors the New Mexico Mortgage Finance Authority 401(k) Plan (Benefit Plan). The Benefit Plan is a defined-contribution 401(k) and 457(b) plan, which covers substantially all of the Authority's employees. Participating employees may make voluntary contributions of not less than 3% of the participating employee's annual salary. If the employee makes the minimum 3% voluntary employee contribution, the Authority will make a matching contribution equal to 5% of the participating employee's salary. In addition to the matching contribution, the Authority makes a fixed annual contribution equal to 11% of each participating employee's salary regardless of whether or not the participant makes a voluntary contribution. Plan participants become fully vested in the Authority's contributions after five years of service. The Authority's and employees' contributions to the Benefit Plan were approximately $592,000 and $227,000, respectively, for the year ended September 30, 2014. The Authority's and employees' contributions to the Benefit Plan were approximately $550,000 and $211,000, respectively, for the year ended September 30, 2013. The Executive Director, Director of Human Resources, and Deputy Director of Finance and Administration have the authority to amend the plans.

(12) Board-Designated Net Position

The board of directors of the Authority has the discretion to reverse any board-designated net position. The board of directors of the Authority designated the following amounts as of September 30, 2014 and 2013 (in thousands):

		2014	2013
Single family and multifamily programs as designated by the board	$	17,548	14,689
Future general operating budget, year-end September 30, 2014		11,200	10,125
Housing Opportunity Fund		83,128	82,255
Risk-sharing loss exposure		11,326	11,622
Federal and state housing programs administered by the Authority		9,275	8,279
Total board-designated net position	$	132,477	126,970

(13) Commitments and Contingencies

The Authority entered into a risk-sharing agreement with the U.S. Department of Housing and Urban Development (HUD) under Section 542(c) of the Housing and Community Development Act of 1992, whereby HUD and the Authority provide credit enhancements for third party multifamily housing project loans. HUD has assumed 90% of the risk and the Authority guarantees the remaining 10% risk of loss in the event of default on specific loans. As of September 30, 2014 and 2013, the Authority is committed to assume a risk of approximately $12,264,000 and $12,174,000 for the 49 and 47 loans closed, respectively. These loans are considered in the Authority's assessment for the allowance for mortgage loan losses. As of September 30, 2014, of the 49 loans closed, 13 of the loans are not included in the Authority's financial statements because they are 100% participations with the AFL-CIO and Fannie Mae. Of the $12,264,000 risk assumed as of September 30, 2014, the Authority's assumed risk approximated $2,100,000 for these off balance sheet loans. The end dates for the guarantees range from 2035 – 2044. In situations where the

(Continued)

Authority is called upon to honor its guarantee, the Authority will take possession of and sell the loan collateral. HUD and the Authority will make up any shortfall resulting from the sale of the collateral on a 90%/10% prorata basis.

The Authority also entered into a risk-sharing agreement with the U.S. Department of Agriculture under Section 538 Rural Rental Housing Guaranteed Loan Program. The Rural Housing Service (RHS), Department of Agriculture (USDA) provides credit enhancements to encourage private and public lenders to make new loans for affordable rental properties that meet program standards. The USDA has assumed 90% of the risk in the one loan closed and funded by the Authority as of September 30, 2014. As of September 30, 2014 and 2013, the Authority is committed to assume a risk of approximately $119,000 and $121,000 for the one loan closed, respectively.

The Authority participates in a number of federal financial assistance programs. These programs are subject to independent financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the granting agencies has not been determined at this time, although the Authority expects such amount, if any, to be immaterial.

On June 27, 2007, the board of directors approved the write off of two HOME loans: Mesa Grande Apts. Ltd. for $209,000 and Sunrise Homes Apts. Ltd. for $229,000. Based on the information available as of September 30, 2014, Management has determined that it is probable that MFA has incurred a contingent liability for the balance of the loans $438,000, which may be payable to HUD for noncompliance with the affordability requirement. The contingent liability is accrued at year end.

The Authority offers its “Build It!” Loan Guaranty Program to eligible entities, including nonprofit organizations, units of local governments, public housing authorities, and tribal entities. Under this program, the MFA can guarantee up to 50% of a loan to an eligible entity to build or rehabilitate affordable housing. As of September 30, 2014 and 2013, there are no outstanding guarantees to which the Authority has committed.

(14) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance to cover losses to which it may be exposed.

(15) Joint Powers Agreements and Memorandums of Understanding

The Authority has entered into eight joint powers agreements (JPAs) or memorandums of understanding (MOU) with various departments of the State. At September 30, 2014, these JPAs and MOUs were as follows:

(a) The Authority entered into a JPA with the State Investment Council (SIC) in January 2006. The purpose of the agreement is to establish a relationship under which SIC will act as the investment manager of the Authority’s funds. The JPA was effective January 1, 2006 and will continue in force until terminated by the parties.

(b) The Authority entered into a JPA with the New Mexico Department of Finance and Administration (DFA) in April 2009, which was amended June 2009, March 2010, June 2010, June 2013, December 2013, and July 2014. The purpose of the agreement is for the implementation and administration of a subgrant of the HUD Neighborhood Stabilization Program grant. The Authority has the responsibility for program operations. The JPA was effective April 23, 2009 and will terminate June 20, 2015. The maximum amount to be reimbursed under the JPA is $15,148,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(c) The Authority entered into a MOU with the New Mexico Attorney General in November 2012, which was amended December 2013. The purpose of this agreement is for the Attorney General to transfer funds to the Authority for the purpose of implementing a statewide program to provide comprehensive help to NM homeowners who are in danger of losing their home to foreclosure. The JPA was effective November 9, 2012, and will terminate June 30, 2015. The estimated amount of the project is $8,749,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(d) The Authority entered into a JPA with DFA in October 2013. The purpose of this agreement is for DFA to transfer funds to the Authority for the purpose of expending funds pursuant to the Housing Trust Fund Act and the Affordable Housing Act. The JPA was effective October 2, 2013, and terminated June 30, 2014. The estimated amount of the project is $200,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(e) The Authority entered into a JPA with DFA in March 2014. The purpose of this agreement is to set forth the roles and responsibilities of the parties with respect to funding in connection with preparation of the Consolidated Plan and the Annual Plan. The JPA was effective March 18, 2014, and will terminate March 18, 2015. The estimated amount of the project is $75,000, all of which is applicable to the Authority. The Authority does contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(f) The Authority entered into a JPA with DFA in September 2014. The purpose of this agreement is for DFA to transfer funds to the Authority for oversight of the Affordable Housing Act. The JPA was effective July 1, 2014, and will terminate June 30, 2015. The estimated amount of the project is $250,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(g) The Authority entered into a JPA with DFA in October 2014. The purpose of this agreement is for DFA to transfer funds to the Authority for the purpose of carrying out the provisions of the Housing Trust Fund Act. The JPA was effective July 1, 2014, and will terminate June 30, 2015. The estimated amount of the project is $500,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(Continued)

(h) The Authority entered into a JPA with DFA in October 2014. The purpose of this agreement is for DFA to transfer funds to the Authority to provide oversight to regional housing authorities. The JPA was effective July 1, 2014, and will terminate June 30, 2015. The estimated amount of the project is $199,500, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(16) Related-Party Transactions

In September 2007, the Authority's board of directors approved the creation of the New Mexico Affordable Housing Charitable Trust, a 501(c)3 entity. The purpose of the Trust is to support the purposes and programs of the Authority, to seek gifts and grants of property, to borrow money, and to lend, lease, sell, exchange, or otherwise transfer or distribute property for affordable housing. The Trust is governed by the Authority's board of directors. The Authority supports the ongoing operations of the Trust with an annual contribution in the amount of the cost of operations. During fiscal years 2014 and 2013, the Authority incurred $2,500 and $1,000, respectively, on behalf of the Trust. The Authority also made an in-kind contribution to the Trust in the same amount in order to forgive the amount incurred. As of September 30, 2014 and 2013, balances due to/from the Trust were $0 and $0, respectively.

In February 2010, the Governor of New Mexico appointed the Executive Director of Santa Fe Community Housing Trust to the Authority's board of directors, whose tenure terminated on March 19, 2014. Santa Fe Community Housing Trust also has a participating ownership in The Village Sage, LLC, Stage Coach Apartments, LLC and La Nueva Querencia, LLC. During the Executive Director's tenure in fiscal years 2014 and 2013, the Authority awarded $0 and $8,000, respectively, in grants to Santa Fe Community Housing Trust. During fiscal years 2014 and 2013, the Authority disbursed $857,000 and $100,000, respectively, in grants and loans to Santa Fe Community Housing Trust, The Village Sage, LLC and Stage Coach Apartments, LLC.

(17) Subsequent Events

The Authority has evaluated subsequent events from the period ended September 30, 2014 through December 23, 2014, the date at which the financial statements were available to be issued, and determined there are no items that require disclosure.

(18) Segment Financial Information

The Authority issues separate revenue bonds to finance the single family and multifamily mortgage financing programs. The investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Summary of financial information for each bond indenture is presented on the following pages. Management expects to be able to securitize single family mortgage loans to maturity with no funding requirement necessary from the Authority. The deficits in rental housing programs' net position restricted for debt service are primarily attributable to balances that will amortize over the life of the loan, which are not expected to result in long-term deficiencies in these funds.

SINGLE AUDIT INFORMATION

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Notes to Financial Statements

September 30, 2014

(In thousands)

Statement of Net Position

	Single Family Mortgage Programs						
Assets	**1994 Series A**	**2000 Second Mortgage Series F**	**2002 Series E**	**2002 Series F**	**2003 Series A**	**2003 Series E**	**2004 Series A**
Current assets:							
Restricted cash and cash equivalents	$ —	—	—	—	—	—	—
Restricted investments, net	—	—	—	—	—	—	—
Accrued interest receivable	1	—	—	—	—	—	—
Other current assets	—	—	—	—	—	—	—
Intra-entity receivable (payable)	—	—	—	—	—	—	—
Total current assets	1	—	—	—	—	—	—
Noncurrent assets:							
Restricted cash and cash equivalents	87	—	—	—	—	—	—
Restricted investments and reserve funds, net	—	—	—	—	—	—	—
Restricted securitized mortgage loans, net:							
Securitized mortgage loans, net cost	259	—	—	—	—	—	—
Unrealized gain on securitized mortgage loans	17	—	—	—	—	—	—
Total restricted securitized mortgage loans, net	276	—	—	—	—	—	—
Restricted mortgage loans, net	—	—	—	—	—	—	—
Bond issuance costs, net	—	—	—	—	—	—	—
Total noncurrent assets	363	—	—	—	—	—	—
Total assets	364	—	—	—	—	—	—
Deferred Outflows:							
Refundings of Debt	—	—	—	—	—	—	—
Total Assets & Deferred Outflows	$ 364	—	—	—	—	—	—
Liabilities and Net Position							
Current liabilities:							
Accrued interest payable	$ —	—	—	—	—	—	—
Accounts payable and other accrued expenses	—	—	—	—	—	—	—
Current portion of bonds payable	—	—	—	—	—	—	—
Total current liabilities	—	—	—	—	—	—	—
Noncurrent liabilities:							
Bonds payable, net	15	—	—	—	—	—	—
Accrued arbitrage rebate	—	—	—	—	—	—	—
Total noncurrent liabilities	15	—	—	—	—	—	—
Total liabilities	15	—	—	—	—	—	—
Net position restricted for debt service	349	—	—	—	—	—	—
Total liabilities and net position	$ 364	—	—	—	—	—	—

(Continued)

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Notes to Financial Statements

September 30, 2014

(In thousands)

Statement of Net Position		Single Family Mortgage Programs						
Assets		**2004 Series B**	**2004 Series C**	**2004 Series D**	**2004 Series E**	**2005 Series A**	**2005 Series B**	**2005 Series C**
Current assets:								
Restricted cash and cash equivalents	$	—	—	—	—	135	170	160
Restricted investments, net		—	—	—	—	—	—	—
Accrued interest receivable		—	—	—	—	26	33	31
Other current assets		—	—	—	—	—	—	—
Intra-entity receivable (payable)		—	—	—	—	(3)	—	(4)
Total current assets		—	—	—	—	158	203	187
Noncurrent assets:								
Restricted cash and cash equivalents		—	—	—	—	—	406	136
Restricted investments and reserve funds, net		—	—	—	—	—	—	—
Restricted securitized mortgage loans, net:								
Securitized mortgage loans, net cost		—	—	—	—	5,913	6,688	7,043
Unrealized gain on securitized mortgage loans		—	—	—	—	478	625	440
Total restricted securitized mortgage loans, net		—	—	—	—	6,391	7,313	7,483
Restricted mortgage loans, net		—	—	—	—	—	—	—
Bond issuance costs, net		—	—	—	—	—	—	—
Total noncurrent assets		—	—	—	—	6,391	7,719	7,619
Total assets		—	—	—	—	6,549	7,922	7,806
Deferred Outflows:								
Refundings of Debt		—	—	—	—	—	—	—
Total Assets & Deferred Outflows	$	—	—	—	—	6,549	7,922	7,806
Liabilities and Net Position								
Current liabilities:								
Accrued interest payable	$	—	—	—	—	73	87	84
Accounts payable and other accrued expenses		—	—	—	—	—	—	—
Current portion of bonds payable		—	—	—	—	140	170	160
Total current liabilities		—	—	—	—	213	257	244
Noncurrent liabilities:								
Bonds payable, net		—	—	—	—	5,705	6,591	6,565
Accrued arbitrage rebate		—	—	—	—	—	—	—
Total noncurrent liabilities		—	—	—	—	5,705	6,591	6,565
Total liabilities		—	—	—	—	5,918	6,848	6,809
Net position restricted for debt service		—	—	—	—	631	1,074	997
Total liabilities and net position	$	—	—	—	—	6,549	7,922	7,806

NEW MEXICO MORTGAGE FINANCE AUTHORITY
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Notes to Financial Statements

September 30, 2014

(In thousands)

Statement of Net Position

	Single Family Mortgage Programs		
Assets	**2005 General Indenture**	**2009 General Indenture**	**Total Single Family Mortgage Programs**
Current assets:			
Restricted cash and cash equivalents	$ 9,475	—	9,940
Restricted investments, net	—	—	—
Accrued interest receivable	2,204	555	2,850
Other current assets	—	—	—
Intra-entity receivable (payable)	(284)	(27)	(318)
Total current assets	11,395	528	12,472
Noncurrent assets:			
Restricted cash and cash equivalents	18,494	4,667	23,790
Restricted investments and reserve funds, net	—	—	—
Restricted securitized mortgage loans, net:			
Securitized mortgage loans, net cost	533,585	158,760	712,248
Unrealized gain on securitized mortgage loans	33,592	7,866	43,018
Total restricted securitized mortgage loans, net	567,177	166,626	755,266
Restricted mortgage loans, net	—	—	—
Bond issuance costs, net	—	—	—
Total noncurrent assets	585,671	171,293	779,056
Total assets	597,066	171,821	791,528
Deferred Outflows:			
Refundings of Debt	1,301	—	1,301
Total Assets & Deferred Outflows	$ 598,367	171,821	792,829
Liabilities and Net Position			
Current liabilities:			
Accrued interest payable	$ 3,765	484	4,493
Accounts payable and other accrued expenses	8	9	17
Current portion of bonds payable	9,475	2,970	12,915
Total current liabilities	13,248	3,463	17,425
Noncurrent liabilities:			
Bonds payable, net	515,353	157,262	691,491
Accrued arbitrage rebate	82	—	82
Total noncurrent liabilities	515,435	157,262	691,573
Total liabilities	528,683	160,725	708,998
Net position restricted for debt service	69,684	11,096	83,831
Total liabilities and net position	$ 598,367	171,821	792,829

See accompanying notes to basic financial statements.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Notes to Financial Statements

September 30, 2014

(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position		Single Family Mortgage Programs 1994 Series A	2000 Second Mortgage Series F	2002 Series E	2002 Series F	2003 Series A	2003 Series E	2004 Series A
Operating revenues:								
Interest on mortgage loans and securitized mortgage loans	$	23	—	—	—	—	—	—
Interest on securities and temporary investments		—	—	—	—	—	—	—
Gain (loss) asset sale		—	—	—	—	—	—	—
Net increase (decrease) in fair value of investments		(14)	—	—	—	—	—	—
Loan and commitment fees		—	—	—	—	—	—	—
Administrative fees and other		—	—	—	—	—	—	—
Total operating revenues		9	—	—	—	—	—	—
Operating expenses:								
Interest		5	—	—	—	—	—	—
Bond issuance costs		—	—	—	—	—	—	—
Administrative fees and other		1	—	—	—	—	—	—
Total operating expenses		6	—	—	—	—	—	—
Operating income (loss)		3	—	—	—	—	—	—
Other financing sources (uses) – operating transfers		—	—	—	—	—	—	—
Change in net position		3	—	—	—	—	—	—
Total net position – beginning (as restated)		346	—	—	—	—	—	—
Total net position – ending	$	349	—	—	—	—	—	—
Condensed Statements of Cash Flows								
Net cash provided by (used in):								
Operating activities	$	115	—	—	—	—	—	—
Noncapital financing activities		(120)	—	—	—	—	—	—
Investing activities		—	—	—	—	—	—	—
Net increase (decrease)		(5)	—	—	—	—	—	—
Cash and cash equivalents, beginning of year		92	—	—	—	—	—	—
Cash and cash equivalents, end of year	$	87	—	—	—	—	—	—

(Continued)

(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position		Single Family Mortgage Programs 2004 Series B	2004 Series C	2004 Series D	2004 Series E	2005 Series A	2005 Series B	2005 Series C
Operating revenues:								
Interest on mortgage loans and securitized mortgage loans	$	174	167	212	169	280	338	357
Interest on securities and temporary investments		11	18	18	—	—	21	15
Gain (loss) asset sale		—	—	—	—	—	—	—
Net increase (decrease) in fair value of investments		(387)	(399)	(497)	(415)	18	1	12
Loan and commitment fees		—	—	—	—	—	—	—
Administrative fees and other		(11)	(10)	(11)	(14)	(15)	—	(17)
Total operating revenues		(213)	(224)	(278)	(260)	283	360	367
Operating expenses:								
Interest		178	193	241	201	286	337	298
Bond issuance costs		—	—	—	—	—	—	—
Administrative fees and other		3	2	2	2	—	—	—
Total operating expenses		181	195	243	203	286	337	298
Operating income (loss)		(394)	(419)	(521)	(463)	(3)	23	69
Other financing sources (uses) – operating transfers		(506)	(293)	(289)	(123)	—	—	—
Change in net position		(900)	(712)	(810)	(586)	(3)	23	69
Total net position – beginning		900	712	810	586	634	1,051	928
Total net position – ending	$	—	—	—	—	631	1,074	997
Condensed Statements of Cash Flows								
Net cash provided by (used in):								
Operating activities	$	5,850	5,443	6,527	6,000	1,223	1,406	1,317
Noncapital financing activities		(6,345)	(6,055)	(7,393)	(7,101)	(2,306)	(1,626)	(1,672)
Investing activities		13	22	23	—	—	21	17
Net increase (decrease)		(482)	(590)	(843)	(1,101)	(1,083)	(199)	(338)
Cash and cash equivalents, beginning of year		482	590	843	1,101	1,218	775	634
Cash and cash equivalents, end of year	$	—	—	—	—	135	576	296

(Continued)

(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position	Single Family Mortgage Programs: 2005 General Indenture	Single Family Mortgage Programs: 2009 General Indenture	Single Family Mortgage Programs: Total Single Family Mortgage Programs
Operating revenues:			
Interest on mortgage loans and securitized mortgage loans	$ 24,369	6,476	32,565
Interest on securities and temporary investments	1,041	1	1,125
Gain (loss) asset sale	(2)	—	(2)
Net increase (decrease) in fair value of investments	3,686	590	2,595
Loan and commitment fees	150	—	150
Administrative fees and other	(1,582)	(350)	(2,010)
Total operating revenues	27,662	6,717	34,423
Operating expenses:			
Interest	22,466	5,539	29,744
Bond issuance costs	423	—	423
Administrative fees and other	97	27	134
Total operating expenses	22,986	5,566	30,301
Operating income (loss)	4,676	1,151	4,122
Other financing sources (uses) – operating transfers	775	(591)	(1,027)
Change in net position	5,451	560	3,095
Total net position – beginning (as restated)	64,233	10,536	80,736
Total net position – ending	$ 69,684	11,096	83,831
Condensed Statements of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 74,739	24,411	127,031
Noncapital financing activities	(107,977)	(25,069)	(165,664)
Investing activities	1,144	1	1,241
Net increase (decrease)	(32,094)	(657)	(37,392)
Cash and cash equivalents, beginning of year	60,063	5,324	71,122
Cash and cash equivalents, end of year	$ 27,969	4,667	33,730

See accompanying notes to financial statements.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Notes to Financial Statements

September 30, 2014

(In thousands)

Statement of Net Position	Rental Housing Mortgage Programs						
Assets	2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D	2004 Series F, G	2005 Series A, B	2005 Series C, D
Current assets:							
Restricted cash and cash equivalents	$ 175	170	155	195	180	195	70
Accrued interest receivable	46	36	35	51	44	47	14
Other current assets	—	—	—	—	—	—	—
Intra-entity receivable (payable)	—	—	—	—	—	—	—
Total current assets	221	206	190	246	224	242	84
Noncurrent assets:							
Restricted cash and cash equivalents	401	235	302	345	314	467	95
Note receivable	—	—	—	—	—	—	—
Restricted securitized mortgage loans, net:							
Securitized mortgage loans, net cost	—	—	—	—	—	—	—
Unrealized gain securitized mortgage loans	—	—	—	—	—	—	—
Total restricted securitized mortgage loans, net	—	—	—	—	—	—	—
Restricted mortgage loans, net	8,223	7,837	7,763	10,663	9,656	10,313	3,512
Bond issuance costs, net	—	—	—	—	—	—	—
Total noncurrent assets	8,624	8,072	8,065	11,008	9,970	10,780	3,607
Total assets	8,845	8,278	8,255	11,254	10,194	11,022	3,691
Deferred Outflows:							
Refundings of Debt	—	—	—	—	—	—	—
Total Assets and Deferred Outflows	$ 8,845	8,278	8,255	11,254	10,194	11,022	3,691
Liabilities and Net Position							
Current liabilities:							
Accrued interest payable	$ 127	35	34	51	44	44	15
Accounts payable and other accrued expenses	—	—	—	—	—	1	—
Current portion of bonds payable	175	170	155	195	180	195	70
Total current liabilities	302	205	189	246	224	240	85
Noncurrent liabilities:							
Bonds payable, net	8,706	8,120	7,875	11,095	9,910	10,610	3,696
Accrued arbitrage rebate	—	—	—	—	—	—	—
Total noncurrent liabilities	8,706	8,120	7,875	11,095	9,910	10,610	3,696
Total liabilities	9,008	8,325	8,064	11,341	10,134	10,850	3,781
Net position restricted for debt service	(163)	(47)	191	(87)	60	172	(90)
Total liabilities and net position	$ 8,845	8,278	8,255	11,254	10,194	11,022	3,691

(Continued)

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Notes to Financial Statements

September 30, 2014

(In thousands)

Statement of Net Position	Rental Housing Mortgage Programs						
Assets	**2005 Series E, F**	**2007 Series A, B**	**2007 Series C, D**	**2008 Series A, B**	**2010 Series A, B**	**2012 Series A**	**Total Rental Housing Mortgage Programs**
Current assets:							
Restricted cash and cash equivalents	$ 215	80	4	—	10	1	1,450
Accrued interest receivable	49	24	155	—	4	11	516
Other current assets	—	—	—	—	—	—	—
Intra-entity receivable (payable)	—	—	(7)	—	—	—	(7)
Total current assets	264	104	152	—	14	12	1,959
Noncurrent assets:							
Restricted cash and cash equivalents	296	185	—	—	40	—	2,680
Note receivable	—	—	—	—	—	—	—
Restricted securitized mortgage loans, net:							
Securitized mortgage loans, net cost	—	—	—	—	—	—	—
Unrealized gain securitized mortgage loans	—	—	—	—	—	—	—
Total restricted securitized mortgage loans, net	—	—	—	—	—	—	—
Restricted mortgage loans, net	11,210	5,324	13,343	8,520	868	4,979	102,211
Bond issuance costs, net	—	—	—	—	—	—	—
Total noncurrent assets	11,506	5,509	13,343	8,520	908	4,979	104,891
Total assets	11,770	5,613	13,495	8,520	922	4,991	106,850
Deferred Outflows:							
Refundings of Debt	—	—	—	—	—	—	—
Total Assets and Deferred Outflows	$ 11,770	5,613	13,495	8,520	922	4,991	106,850
Liabilities and Net Position							
Current liabilities:							
Accrued interest payable	$ 49	23	155	—	4	11	592
Accounts payable and other accrued expenses	—	—	—	—	—	1	2
Current portion of bonds payable	215	80	151	—	10	55	1,651
Total current liabilities	264	103	306	—	14	67	2,245
Noncurrent liabilities:							
Bonds payable, net	11,726	5,464	13,192	8,520	851	4,924	104,689
Accrued arbitrage rebate	—	—	—	—	—	—	—
Total noncurrent liabilities	11,726	5,464	13,192	8,520	851	4,924	104,689
Total liabilities	11,990	5,567	13,498	8,520	865	4,991	106,934
Net position restricted for debt service	(220)	46	(3)	—	57	—	(84)
Total liabilities and net position	$ 11,770	5,613	13,495	8,520	922	4,991	106,850

(In thousands)

		Rental Housing Mortgage Programs						
Statements of Revenues, Expenses, and Changes in Net Position		**2002 Series A, B**	**2003 Series A, B**	**2004 Series A, B**	**2004 Series C, D**	**2004 Series F, G**	**2005 Series A, B**	**2005 Series C, D**
Operating revenues:								
Interest on mortgage loans and securitized mortgage loans	$	505	427	405	593	519	545	176
Interest on securities and temporary investments		18	15	21	27	19	27	—
Net increase (decrease) in fair value of investments		—	—	—	—	—	—	—
Loan and commitment fees		—	—	—	—	—	—	—
Administrative fees and other		—	—	—	—	—	—	—
Total operating revenues		523	442	426	620	538	572	176
Operating expenses:								
Interest expense		499	431	418	617	530	539	177
Bond issuance costs		—	—	—	—	—	—	—
Provision (recovery) for loan losses		—	—	—	—	—	—	—
Administrative fees and other		(11)	(9)	3	175	(10)	(14)	(4)
Total operating expenses		488	422	421	792	520	525	173
Operating income (loss)		35	20	5	(172)	18	47	3
Other financing sources (uses) – operating transfers		—				—	—	—
Change in net position		35	20	5	(172)	18	47	3
Total net position – beginning (as restated)		(198)	(67)	186	85	42	125	(93)
Total net position – ending	$	(163)	(47)	191	(87)	60	172	(90)
Condensed Statements of Cash Flows								
Net cash provided by (used in):								
Operating activities	$	536	524	423	721	650	641	240
Noncapital financing activities		(553)	(535)	(516)	(742)	(663)	(637)	(248)
Investing activities		18	15	21	27	19	27	—
Net increase (decrease)		1	4	(72)	6	6	31	(8)
Cash and cash equivalents, beginning of year		575	401	529	534	488	631	173
Cash and cash equivalents, end of year	$	576	405	457	540	494	662	165

(Continued)

NEW MEXICO MORTGAGE FINANCE AUTHORITY
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Notes to Financial Statements

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(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position	**Rental Housing Mortgage Programs** 2005 Series E, F	2007 Series A, B	2007 Series C, D	2008 Series A, B	2010 Series A, B	2012 Series A	Total Rental Housing Mortgage Programs
Operating revenues:							
Interest on mortgage loans and securitized mortgage loans	$ 575	288	867	7	46	264	5,217
Interest on securities and temporary investments	17	—	—	—	—	—	144
Net increase (decrease) in fair value of investments	—	—	—	—	—	—	—
Loan and commitment fees	—	—	—	—	—	—	—
Administrative fees and other	—	—	5	—	—	—	5
Total operating revenues	592	288	872	7	46	264	5,366
Operating expenses:							
Interest expense	582	288	867	7	46	264	5,265
Bond issuance costs	—	—	—	—	—	—	—
Provision (recovery) for loan losses	—	—	—	—	—	—	—
Administrative fees and other	275	2	1	—	—	(1)	407
Total operating expenses	857	290	868	7	46	263	5,672
Operating income (loss)	(265)	(2)	4	—	—	1	(306)
Other financing sources (uses) – operating transfers	—	—	—	—	—	—	—
Change in net position	(265)	(2)	4	—	—	1	(306)
Total net position – beginning	45	48	(7)	—	57	(1)	222
Total net position – ending	$ (220)	46	(3)	—	57	—	(84)
Condensed Statements of Cash Flows							
Net cash provided by (used in):							
Operating activities	$ 638	363	1,014	8	56	(756)	5,058
Noncapital financing activities	(654)	(370)	(1,010)	(8)	(55)	757	(5,234)
Investing activities	17	—	—		—		144
Net increase (decrease)	1	(7)	4	—	1	1	(32)
Cash and cash equivalents, beginning of year	510	272	—	—	49	—	4,162
Cash and cash equivalents, end of year	$ 511	265	4	—	50	1	4,130

(In thousands)

Statement of Net Position	Single Family Mortgage Programs						
Assets	**1994 Series A**	**2000 Second Mortgage Series F**	**2002 Series E**	**2002 Series F**	**2003 Series A**	**2003 Series E**	**2004 Series A**
Current assets:							
Restricted cash and cash equivalents	$ —	—	—	—	—	—	—
Restricted investments, net	—	—	—	—	—	—	—
Accrued interest receivable	2	—	—	—	—	—	—
Other current assets	—	—	—	—	—	—	—
Intra-entity receivable (payable)	—	—	—	—	—	—	—
Total current assets	2	—	—	—	—	—	—
Noncurrent assets:							
Restricted cash and cash equivalents	92	—	—	—	—	—	—
Restricted investments and reserve funds, net	—	—	—	—	—	—	—
Restricted securitized mortgage loans, net:							
Securitized mortgage loans, net cost (as restated, note 1(b))	352	—	—	—	—	—	—
Unrealized gain on securitized mortgage loans (as restated, note 1(b))	32	—	—	—	—	—	—
Total restricted securitized mortgage loans, net	384	—	—	—	—	—	—
Restricted mortgage loans, net	—	—	—	—	—	—	—
Bond issuance costs, net (as restated, note 1(b))	—	—	—	—	—	—	—
Total noncurrent assets (as restated, note 1(b))	476	—	—	—	—	—	—
Deferred Outflows of resources (as restated, note 1(b))							
Total assets (as restated, note 1(b))	$ 478	—	—	—	—	—	—
Liabilities and Net Position							
Current liabilities:							
Accrued interest payable	$ 2	—	—	—	—	—	—
Accounts payable and other accrued expenses	—	—	—	—	—	—	—
Current portion of bonds payable	—	—	—	—	—	—	—
Total current liabilities	2	—	—	—	—	—	—
Noncurrent liabilities:							
Bonds payable, net (as restated, note 1(b))	130	—	—	—	—	—	—
Accrued arbitrage rebate	—	—	—	—	—	—	—
Total noncurrent liabilities (as restated, note 1(b))	130	—	—	—	—	—	—
Total liabilities (as restated, note 1(b))	132	—	—	—	—	—	—
Net position restricted for debt service (as restated, note 1(b))	346	—	—	—	—	—	—
Total liabilities and net position (as restated, note 1(b))	$ 478	—	—	—	—	—	—

(Continued)

(In thousands)

Statement of Net Position		Single Family Mortgage Programs						
Assets		**2004 Series B**	**2004 Series C**	**2004 Series D**	**2004 Series E**	**2005 Series A**	**2005 Series B**	**2005 Series C**
Current assets:								
Restricted cash and cash equivalents	$	160	145	150	150	180	190	180
Restricted investments, net		—	—	—	—	—	—	—
Accrued interest receivable		27	29	37	26	30	38	37
Other current assets		—	—	—	—	—	—	—
Intra-entity receivable (payable)		(4)	(4)	(4)	(5)	(4)	—	(4)
Total current assets		183	170	183	171	206	228	213
Noncurrent assets:								
Restricted cash and cash equivalents		322	445	693	951	1,038	585	454
Restricted investments and reserve funds, net		—	—	—	—	—	—	—
Restricted securitized mortgage loans, net:								
Securitized mortgage loans, net cost (as restated, note 1(b))		6,213	5,598	6,633	5,993	6,922	7,803	8,071
Unrealized gain on securitized mortgage loans (as restated, note 1(b))		386	398	498	416	459	624	430
Total restricted securitized mortgage loans, net		6,599	5,996	7,131	6,409	7,381	8,427	8,501
Restricted mortgage loans, net		—	—	—	—	—	—	—
Bond issuance costs, net (as restated, note 1(b))		—	—	—	—	—	—	—
Total noncurrent assets (as restated, note 1(b))		6,921	6,441	7,824	7,360	8,419	9,012	8,955
Deferred Outflows of resources (as restated, note 1(b))								
Total assets (as restated, note 1(b))	$	7,104	6,611	8,007	7,531	8,625	9,240	9,168
Liabilities and Net Position								
Current liabilities:								
Accrued interest payable	$	70	77	97	86	98	105	102
Accounts payable and other accrued expenses		—	—	—	—	—	—	—
Current portion of bonds payable		160	145	150	150	180	190	180
Total current liabilities		230	222	247	236	278	295	282
Noncurrent liabilities:								
Bonds payable, net (as restated, note 1(b))		5,974	5,677	6,950	6,709	7,713	7,894	7,958
Accrued arbitrage rebate		.	—	—	—	—	—	—
Total noncurrent liabilities (as restated, note 1(b))		5,974	5,677	6,950	6,709	7,713	7,894	7,958
Total liabilities (as restated, note 1(b))		6,204	5,899	7,197	6,945	7,991	8,189	8,240
Net position restricted for debt service (as restated, note 1(b))		900	712	810	586	634	1,051	928
Total liabilities and net position (as restated, note 1(b))	$	7,104	6,611	8,007	7,531	8,625	9,240	9,168

(In thousands)

Statement of Net Position		Single Family Mortgage Programs		
Assets		**2005 General Indenture**	**2009 General Indenture**	**Total Single Family Mortgage Programs**
Current assets:				
Restricted cash and cash equivalents	$	10,255	3,080	14,490
Restricted investments, net		—	—	—
Accrued interest receivable		2,511	625	3,362
Other current assets		—	—	—
Intra-entity receivable (payable)		(292)	(30)	(347)
Total current assets		12,474	3,675	17,505
Noncurrent assets:				
Restricted cash and cash equivalents		49,808	2,244	56,632
Restricted investments and reserve funds, net		—	—	—
Restricted securitized mortgage loans, net:				
Securitized mortgage loans, net cost (as restated, note 1(b))		589,492	178,641	815,718
Unrealized gain on securitized mortgage loans (as restated, note 1(b))		29,906	7,274	40,423
Total restricted securitized mortgage loans, net		619,398	185,915	856,141
Restricted mortgage loans, net		—	—	—
Bond issuance costs, net (as restated, note 1(b))		—	—	—
Total noncurrent assets (as restated, note 1(b))		669,206	188,159	912,773
Deferred Outflows of resources (as restated, note 1(b))		1,338		1,338
Total assets (as restated, note 1(b))	$	683,018	191,834	931,616
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$	4,789	548	5,974
Accounts payable and other accrued expenses		10	10	20
Current portion of bonds payable		10,255	3,080	14,490
Total current liabilities		15,054	3,638	20,484
Noncurrent liabilities:				
Bonds payable, net (as restated, note 1(b))		603,653	177,660	830,318
Accrued arbitrage rebate		78	—	78
Total noncurrent liabilities (as restated, note 1(b))		603,731	177,660	830,396
Total liabilities (as restated, note 1(b))		618,785	181,298	850,880
Net position restricted for debt service (as restated, note 1(b))		64,233	10,536	80,736
Total liabilities and net position (as restated, note 1(b))	$	683,018	191,834	931,616

See accompanying notes to basic financial statements.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
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Notes to Financial Statements

September 30, 2013

(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position	Single Family Mortgage Programs 1994 Series A	2000 Second Mortgage Series F	2002 Series E	2002 Series F	2003 Series A	2003 Series E	2004 Series A
Operating revenues:							
Interest on mortgage loans and securitized mortgage loans	$ 30	1	—	—	—	170	212
Interest on securities and temporary investments	—	—	—	—	—	1	19
Gain (loss) asset sale	—	(5)	—	—	—	—	—
Net increase (decrease) in fair value of investments (as restated, note 1(b))	(50)	—	—	—	—	(532)	(619)
Loan and commitment fees (as restated, note 1(b))	—	—	—	—	—	—	—
Administrative fees and other	—	—	—	—	—	(5)	(13)
Total operating revenues (as restated, note 1(b))	(20)	(4)	—	—	—	(366)	(401)
Operating expenses:							
Interest (as restated, note 1(b))	13	3	—	—	—	212	235
Bond issuance costs (as restated, note 1(b))	—	—	—	—	—	—	—
Administrative fees and other	—	3	1	—	—	2	2
Total operating expenses (as restated, note 1(b))	13	6	1	—	—	214	237
Operating income (loss) (as restated, note 1(b))	(33)	(10)	(1)	—	—	(580)	(638)
Other financing sources (uses) – operating transfers	—	(151)	1	(34)	(37)	(343)	(403)
Change in net position (as restated, note 1(b))	(33)	(161)	—	(34)	(37)	(923)	(1,041)
Total net position – beginning (as restated, note 1(b))	379	161	—	34	37	923	1,041
Total net position – ending (as restated, note 1(b))	$ 346	—	—	—	—	—	—
Condensed Statements of Cash Flows							
Net cash provided by (used in):							
Operating activities	$ 145	(90)	—	(34)	(37)	6,061	7,208
Noncapital financing activities	(171)	(55)	—	—	—	(6,715)	(7,638)
Investing activities	—	(6)	—	—	—	1	21
Net increase (decrease)	(26)	(151)	—	(34)	(37)	(653)	(409)
Cash and cash equivalents, beginning of year	118	151	—	34	37	653	409
Cash and cash equivalents, end of year	$ 92	—	—	—	—	—	—

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September 30, 2013

(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position		2004 Series B	2004 Series C	2004 Series D	2004 Series E	2005 Series A	2005 Series B	2005 Series C
		Single Family Mortgage Programs						
Operating revenues:								
Interest on mortgage loans and securitized mortgage loans	$	293	275	377	312	360	391	415
Interest on securities and temporary investments		22	37	28	1	1	42	32
Gain (loss) asset sale		—	—	—	—	—	—	—
Net increase (decrease) in fair value of investments (as restated, note 1(b))		(186)	(252)	(298)	(322)	(403)	(324)	(292)
Loan and commitment fees (as restated, note 1(b))		—	—	—	—	—	—	—
Administrative fees and other		(17)	(17)	(16)	(22)	(21)	—	(20)
Total operating revenues (as restated, note 1(b))		112	43	91	(31)	(63)	109	135
Operating expenses:								
Interest (as restated, note 1(b))		278	299	387	339	397	423	384
Bond issuance costs (as restated, note 1(b))		—	—	—	—	—	—	—
Administrative fees and other		—	—	—	—	—	—	—
Total operating expenses (as restated, note 1(b))		278	299	387	339	397	423	384
Operating income (loss) (as restated, note 1(b))		(166)	(256)	(296)	(370)	(460)	(314)	(249)
Other financing sources (uses) – operating transfers		—	—	—	—	—	—	—
Change in net position (as restated, note 1(b))		(166)	(256)	(296)	(370)	(460)	(314)	(249)
Total net position – beginning (as restated, note 1(b))		1,066	968	1,106	956	1,094	1,365	1,177
Total net position – ending (as restated, note 1(b))	$	900	712	810	586	634	1,051	928
Condensed Statements of Cash Flows								
Net cash provided by (used in):								
Operating activities	$	1,989	2,001	1,711	2,757	3,667	2,739	2,163
Noncapital financing activities		(2,098)	(2,794)	(1,820)	(2,883)	(4,216)	(3,449)	(3,013)
Investing activities		23	43	27	1	1	45	35
Net increase (decrease)		(86)	(750)	(82)	(125)	(548)	(665)	(815)
Cash and cash equivalents, beginning of year		568	1,340	925	1,226	1,766	1,440	1,449
Cash and cash equivalents, end of year	$	482	590	843	1,101	1,218	775	634

NEW MEXICO MORTGAGE FINANCE AUTHORITY
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(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position		**Single Family Mortgage Programs: 2005 General Indenture**	**2009 General Indenture**	**Total Single Family Mortgage Programs**
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$	26,369	7,208	36,413
Interest on securities and temporary investments		2,086	7	2,276
Gain (loss) asset sale		1	—	(4)
Net increase (decrease) in fair value of investments (as restated, note 1(b))		(26,901)	(9,232)	(39,411)
Loan and commitment fees (as restated, note 1(b))		1,247	—	1,247
Administrative fees and other		(1,452)	(398)	(1,981)
Total operating revenues (as restated, note 1(b))		1,350	(2,415)	(1,460)
Operating expenses:				
Interest (as restated, note 1(b))		27,721	6,217	36,908
Bond issuance costs (as restated, note 1(b))		777	—	777
Administrative fees and other		76	32	116
Total operating expenses (as restated, note 1(b))		28,574	6,249	37,801
Operating income (loss) (as restated, note 1(b))		(27,224)	(8,664)	(39,261)
Other financing sources (uses) – operating transfers		355	(651)	(1,263)
Change in net position (as restated, note 1(b))		(26,869)	(9,315)	(40,524)
Total net position – beginning (as restated, note 1(b))		91,102	19,851	121,260
Total net position – ending (as restated, note 1(b))	$	64,233	10,536	80,736
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$	69,110	34,773	134,163
Noncapital financing activities		(123,121)	(36,722)	(194,695)
Investing activities		2,155	6	2,352
Net increase (decrease)		(51,856)	(1,943)	(58,180)
Cash and cash equivalents, beginning of year		111,919	7,267	129,302
Cash and cash equivalents, end of year	$	60,063	5,324	71,122

See accompanying notes to financial statements.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
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September 30, 2013

(In thousands)

Statement of Net Position	Rental Housing Mortgage Programs						
Assets		**2002 Series A, B**	**2003 Series A, B**	**2004 Series A, B**	**2004 Series C, D**	**2004 Series F, G**	**2005 Series A, B**
Current assets:							
Restricted cash and cash equivalents	$	165	160	255	185	170	180
Accrued interest receivable		46	37	35	52	45	48
Other current assets		—	—	—	—	—	—
Intra-entity receivable (payable)		—	—	—	—	—	—
Total current assets		211	197	290	237	215	228
Noncurrent assets:							
Restricted cash and cash equivalents		410	241	274	349	318	451
Note receivable		—	—	—	—	—	—
Restricted securitized mortgage loans, net:							
Securitized mortgage loans, net cost		—	—	—	—	—	—
Unrealized gain securitized mortgage loans		—	—	—	—	—	—
Total restricted securitized mortgage loans, net		—	—	—	—	—	—
Restricted mortgage loans, net (as restated, note 1(b))		8,372	7,981	7,942	11,026	9,814	10,476
Bond issuance costs, net (as restated, note 1(b))		—	—	—	—	—	—
Total noncurrent assets (as restated, note 1(b))		8,782	8,222	8,216	11,375	10,132	10,927
Total assets (as restated, note 1(b))	$	8,993	8,419	8,506	11,612	10,347	11,155
Liabilities and Net Position							
Current liabilities:							
Accrued interest payable	$	130	36	35	52	44	45
Accounts payable and other accrued expenses		—	—	—	—	1	—
Current portion of bonds payable		165	160	255	185	170	180
Total current liabilities		295	196	290	237	215	225
Noncurrent liabilities:							
Bonds payable, net		8,896	8,290	8,030	11,290	10,090	10,805
Accrued arbitrage rebate		—	—	—	—	—	—
Total noncurrent liabilities		8,896	8,290	8,030	11,290	10,090	10,805
Total liabilities		9,191	8,486	8,320	11,527	10,305	11,030
Net position restricted for debt service (as restated, note 1(b))		(198)	(67)	186	85	42	125
Total liabilities and net position (as restated, note 1(b))	$	8,993	8,419	8,506	11,612	10,347	11,155

(Continued)

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Statement of Net Position		**Rental Housing Mortgage Programs**				
Assets		**2005 Series C, D**	**2005 Series E, F**	**2007 Series A, B**	**2007 Series C, D**	**2008 Series A, B**
Current assets:						
Restricted cash and cash equivalents	$	70	205	80	—	—
Accrued interest receivable		15	49	24	156	1
Other current assets		—	—	—	—	—
Intra-entity receivable (payable)		—	—	—	(7)	—
Total current assets		85	254	104	149	1
Noncurrent assets:						
Restricted cash and cash equivalents		103	305	192	—	—
Note receivable		—	—	—	—	—
Restricted securitized mortgage loans, net:						
Securitized mortgage loans, net cost		—	—	—	—	—
Unrealized gain securitized mortgage loans		—	—	—	—	—
Total restricted securitized mortgage loans, net		—	—	—	—	—
Restricted mortgage loans, net (as restated, note 1(b))		3,571	11,684	5,401	13,486	8,520
Bond issuance costs, net (as restated, note 1(b))		—	—	—	—	—
Total noncurrent assets (as restated, note 1(b))		3,674	11,989	5,593	13,486	8,520
Total assets (as restated, note 1(b))	$	3,759	12,243	5,697	13,635	8,521
Liabilities and Net Position						
Current liabilities:						
Accrued interest payable	$	15	49	24	156	1
Accounts payable and other accrued expenses		—	—	—	—	—
Current portion of bonds payable		70	205	80	143	—
Total current liabilities		85	254	104	299	1
Noncurrent liabilities:						
Bonds payable, net		3,767	11,944	5,545	13,343	8,520
Accrued arbitrage rebate		—	—	—	—	—
Total noncurrent liabilities		3,767	11,944	5,545	13,343	8,520
Total liabilities		3,852	12,198	5,649	13,642	8,521
Net position restricted for debt service (as restated, note 1(b))		(93)	45	48	(7)	—
Total liabilities and net position (as restated, note 1(b))	$	3,759	12,243	5,697	13,635	8,521

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(In thousands)

		Rental Housing Mortgage Programs		
Assets		**2010 Series A, B**	**2012 Series A**	**Total Rental Housing Mortgage Programs**
Current assets:				
Restricted cash and cash equivalents	$	10	—	1,480
Accrued interest receivable		4	16	528
Other current assets		—	—	—
Intra-entity receivable (payable)		—	—	(7)
Total current assets		14	16	2,001
Noncurrent assets:				
Restricted cash and cash equivalents		39	—	2,682
Note receivable		—	—	—
Restricted securitized mortgage loans, net:				
Securitized mortgage loans, net cost		—	—	—
Unrealized gain securitized mortgage loans		—	—	—
Total restricted securitized mortgage loans, net		—	—	—
Restricted mortgage loans, net (as restated, note 1(b))		878	3,954	103,105
Bond issuance costs, net (as restated, note 1(b))		—	—	—
Total noncurrent assets (as restated, note 1(b))		917	3,954	105,787
Total assets (as restated, note 1(b))	$	931	3,970	107,788
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$	4	16	607
Accounts payable and other accrued expenses		—	1	2
Current portion of bonds payable		10	3,954	5,577
Total current liabilities		14	3,971	6,186
Noncurrent liabilities:				
Bonds payable, net		860	—	101,380
Accrued arbitrage rebate		—	—	—
Total noncurrent liabilities		860	—	101,380
Total liabilities		874	3,971	107,566
Net position restricted for debt service (as restated, note 1(b))		57	(1)	222
Total liabilities and net position (as restated, note 1(b))	$	931	3,970	107,788

See accompanying notes to financial statements.

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(In thousands)

		Rental Housing Mortgage Programs					
Statements of Revenues, Expenses, and Changes in Net Position		**2002 Series A, B**	**2003 Series A, B**	**2004 Series A, B**	**2004 Series C, D**	**2004 Series F, G**	**2005 Series A, B**
Operating revenues:							
Interest on mortgage loans and securitized mortgage loans	$	730	435	417	603	528	554
Interest on securities and temporary investments		17	15	23	27	19	25
Net increase (decrease) in fair value of investments		—	—	—	—	—	—
Loan and commitment fees (as restated, note 1(b))		—	1	—	—	—	—
Administrative fees and other		—	—	—	—	—	—
Total operating revenues (as restated, note 1(b))		747	451	440	630	547	579
Operating expenses:							
Interest expense		509	440	433	626	539	548
Bond issuance costs (as restated, note 1(b))		—	—	—	—	—	—
Provision (recovery) for loan losses		—	—	—	—	—	—
Administrative fees and other		(188)	98	(5)	(109)	(7)	104
Total operating expenses (as restated, note 1(b))		321	538	428	517	532	652
Operating income (loss) (as restated, note 1(b))		426	(87)	12	113	15	(73)
Other financing sources (uses) – operating transfers		—	—	—	—	—	—
Change in net position (as restated, note 1(b))		426	(87)	12	113	15	(73)
Total net position – beginning (as restated, note 1(b))		(624)	20	174	(28)	27	198
Total net position – ending	$	(198)	(67)	186	85	42	125
Condensed Statements of Cash Flows							
Net cash provided by (used in):							
Operating activities	$	885	581	696	781	686	723
Noncapital financing activities		(682)	(591)	(715)	(802)	(704)	(719)
Investing activities		15	15	23	26	19	26
Net increase (decrease)		218	5	4	5	1	30
Cash and cash equivalents, beginning of year		357	396	525	529	487	601
Cash and cash equivalents, end of year	$	575	401	529	534	488	631

(In thousands)

	Rental Housing Mortgage Programs				
Statements of Revenues, Expenses, and Changes in Net Position	**2005 Series C, D**	**2005 Series E, F**	**2007 Series A, B**	**2007 Series C, D**	**2008 Series A, B**
Operating revenues:					
Interest on mortgage loans and securitized mortgage loans	$ 179	586	292	876	13
Interest on securities and temporary investments	—	17	—	—	—
Net increase (decrease) in fair value of investments	—	—	—	—	—
Loan and commitment fees (as restated, note 1(b))	—	2	1	—	—
Administrative fees and other	—	—	—	2	—
Total operating revenues (as restated, note 1(b))	179	605	293	878	13
Operating expenses:					
Interest expense	181	595	293	876	13
Bond issuance costs (as restated, note 1(b))	—	—	—	—	—
Provision (recovery) for loan losses	—	—	—	—	—
Administrative fees and other	63	(115)	(6)	(88)	—
Total operating expenses (as restated, note 1(b))	244	480	287	788	13
Operating income (loss) (as restated, note 1(b))	(65)	125	6	90	—
Other financing sources (uses) – operating transfers	—	—	—	—	—
Change in net position (as restated, note 1(b))	(65)	125	6	90	—
Total net position – beginning (as restated, note 1(b))	(28)	(80)	42	(97)	—
Total net position – ending	$ (93)	45	48	(7)	—
Condensed Statements of Cash Flows					
Net cash provided by (used in):					
Operating activities	$ 240	776	362	1,011	14
Noncapital financing activities	(241)	(791)	(369)	(1,011)	(14)
Investing activities	—	17	—	—	—
Net increase (decrease)	(1)	2	(7)	—	—
Cash and cash equivalents, beginning of year	174	508	279	—	—
Cash and cash equivalents, end of year	$ 173	510	272	—	—

(Continued)

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Notes to Financial Statements

September 30, 2013

(In thousands)

Statements of Revenues, Expenses, and Changes in Net Position		**Rental Housing Mortgage Programs** 2010 Series A, B	2012 Series A	Total Rental Housing Mortgage Programs
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$	46	63	5,322
Interest on securities and temporary investments		—	—	143
Net increase (decrease) in fair value of investments		—	—	—
Loan and commitment fees (as restated, note 1(b))		1	—	5
Administrative fees and other		—	2	4
Total operating revenues (as restated, note 1(b))		47	65	5,474
Operating expenses:				
Interest expense		46	63	5,162
Bond issuance costs (as restated, note 1(b))		—	—	—
Provision (recovery) for loan losses		—	—	—
Administrative fees and other		(2)	3	(252)
Total operating expenses (as restated, note 1(b))		44	66	4,910
Operating income (loss) (as restated, note 1(b))		3	(1)	564
Other financing sources (uses) – operating transfers		—	—	—
Change in net position (as restated, note 1(b))		3	(1)	564
Total net position – beginning (as restated, note 1(b))		54	—	(342)
Total net position – ending	$	57	(1)	222
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$	55	(3,907)	2,903
Noncapital financing activities		(65)	3,907	(2,797)
Investing activities		—		141
Net increase (decrease)		(10)	—	247
Cash and cash equivalents, beginning of year		59	—	3,915
Cash and cash equivalents, end of year	$	49	—	4,162

See accompanying notes to financial statements.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal grantor/program title	Federal CFDA number	Most recent grant agreement	Expenditures	Loans and loan guarantees	Total expenditures and loans and loan guarantees
U.S. Department of Agriculture:					
Very Low to Moderate Income Housing Loans	10.410	NA	$ —	197,721	197,721
Section 538 Rural Rental Housing Guaranteed Loans	10.438	NA	—	1,071,511	1,071,511
Total U.S. Department of Agriculture			—	1,269,232	1,269,232
U.S. Department of Housing and Urban Development:					
Mortgage Insurance – Homes (FHA)	14.117	N/A	—	3,292,337	3,292,337
Housing Finance Agencies Risk Sharing Program*	14.188	N/A	2,484,940	89,109,886	91,594,826
Section 8 Housing Choice Vouchers*	14.195	NM800CC001	28,012,951	—	28,012,951
Neighborhood Stabilization Program pass-through State DFA (a Community Development Block Grant/Neighborhood Stabilization Program) *	14.228	09-NSP-2-J-01	59,451	3,404,122	3,463,573
Emergency Solutions Grants Program	14.231	S14-DC-35-0001	682,434	—	682,434
HOME Investment Partnerships Program	14.239	M-14-SG-35-0100	6,022,821	39,692,113	45,714,934
Housing Opportunities for Persons with AIDS	14.241	NMH014-F999	655,000	—	655,000
ARRA – Tax Credit Assistance Program	14.258	M-09-ES-35-0100	—	13,652,228	13,652,228
Emergency Homeowners Loan program pass-through from Neighborworks America	14.323	NA	10,171	—	10,171
Total U.S. Department of Housing and Urban Development			37,927,768	149,150,686	187,078,454
U.S. Department of the Treasury, pass-through from Neighborworks: America National Foreclosure Mitigation Counseling	21.000	PL112-55:95X1350	2,333	—	2,333
U.S. Department of Veterans Affairs: Veterans Housing – Guaranteed and Insured Loans	64.114	NA	—	141,812	141,812
U.S. Department of Energy:					
Weatherization Assistance for Low-Income Persons	81.042	EE0006171	1,481,234	—	1,481,234
ARRA – Weatherization Assistance for Low-Income Persons	81.042	EE0000104	3,793	—	3,793
Total Weatherization Assistance for Low-Income Persons			1,485,027	—	1,485,027
Total U.S. Department of Energy			1,485,027	—	1,485,027
U.S. Department of Health and Human Services pass-through from the New Mexico Department of Human Services: Low-Income Home Energy Assistance Program	93.568	15-630-9000-0002	1,326,859	—	1,326,859
Total federal awards			$ 40,741,987	150,561,730	191,303,717

* Major program as defined by OMB Circular A-133

See accompanying notes to schedule of expenditures of federal awards.

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The Authority's reporting entity is defined in note 1 to the Authority's financial statements. All federal financial assistance received from federal agencies, including amounts passed through from other governmental entities and disbursed by the Authority, is included in the Schedule in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Relationship to the Authority's Financial Statements

Federal financial assistance program expenditures as presented in the accompanying Schedule primarily represent federal financial assistance payments disbursed by the Authority during the year ended September 30, 2014 or federally insured loans as described in note 3.

(3) Mortgage Insurance and Guarantees

Certain mortgage loans of the Authority are insured by the Federal Housing Administration (FHA) and partially guaranteed by the Veterans Administration (VA). At September 30, 2014, the Authority recorded approximately $3,292,000 of FHA insured loans. These serviced loans are included on the accompanying Schedule.

The Authority participates in the Risk Sharing loan program, under which the Department of Housing and Urban Development (HUD) provides credit enhancements for multifamily housing project loans. HUD and the Authority share in the risk of loss on the mortgage. HUD has assumed 90% of the risk in 49 loans. HUD's assumed risk approximated $110,379,000 at September 30, 2014. Of the 49 loans closed, the Authority funded 36 loans with outstanding principal of $101,772,000 at September 30, 2014. HUD's assumed risk of loss of approximately $91,595,000 related to these 36 loans is recorded in the accompanying Schedule.

The Authority participates in the Section 538 Rural Rental Housing Guaranteed Loan Program, under which the Rural Housing Service (RHS), Department of Agriculture (USDA), provides credit enhancements to encourage private and public lenders to make new loans for affordable rental properties that meet program standards. The USDA has assumed 90% of the risk in the one loan closed and funded by the Authority. At September 30, 2014, the loan had an outstanding principal of $1,191,000, of which the USDA assumed risk of loss of approximately $1,072,000 serviced in the accompanying Schedule.

(4) Loans and Loan Guarantees

Loans and loan guarantees in the accompanying Schedule consist of outstanding principal loans in programs that have ongoing compliance requirements.

(5) Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule agree with the amounts reported in the related federal financial reports.

(6) Subrecipients

Of the federal expenditures presented in the Schedule, the Authority provided federal awards to subrecipients as follows:

Federal grants/program title	Federal CFDA number		Amount provided to subrecipients
Section 8 Housing Choice Vouchers	14.195	$	27,055,526
Neighborhood Stabilization Program (a CDBG grant)	14.228		33,304
Emergency Solutions Grants Program	14.231		629,212
HOME Investment Partnerships Program	14.239		5,688,611
Housing Opportunities for Persons with AIDS	14.241		624,742
Emergency Homeowner's Loan Program	14.323		9,668
Total U.S. Department of Housing and Urban Development			34,041,063
U.S. Department of the Treasury:			
National Foreclosure Mitigation Counseling	21.000		2,837
U.S. Department of Energy:			
Weatherization Assistance Program for Low-Income Persons	81.042		1,363,257
U.S. Department of Health and Human Services:			
Low-Income Home Energy Assistance Program	93.568		1,265,190
Total federal assistance awarded to subrecipients		$	36,672,347

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Independent Auditors' 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*

The Authority Members
New Mexico Mortgage Finance Authority and
Mr. Hector H. Balderas, New Mexico State Auditor:

We have audited, in accordance with the 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, the financial statements of the business-type activities of the New Mexico Mortgage Finance Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended September 30, 2014, and the related notes to the financial statements and have issued our report thereon dated December 23, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
December 23, 2014

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Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance

The Authority Members
New Mexico Mortgage Finance Authority and
Mr. Hector H. Balderas, New Mexico State Auditor:

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Mortgage Finance Authority's (the Authority), a component unit of the State of New Mexico, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2014. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-001, which we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
December 23, 2014

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Summary Schedule of Prior Year Audit Findings

September 30, 2014

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

2013-001 Community Development Block Grant/Neighborhood Stabilization Program – Reporting

Current Status: Not Resolved, finding repeated.

Other Findings as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978

2013-002 Monitoring of Fringe Benefits

Current Status: Resolved.

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

• Material weaknesses identified?	______	yes	x	no
• Significant deficiencies identified that are not considered to be material weaknesses?	______	yes	x	None reported
• Noncompliance material to financial statements noted?	______	yes	x	no

Federal Awards

Internal control over major programs:

• Material weaknesses identified?	______	yes	x	no
• Significant deficiencies identified that are not considered to be material weaknesses?	x	yes	______	None reported

Type of auditors' report issued on compliance for major programs: Unmodified

• Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	x	yes	______	no

Identification of major programs:

Program name	CFDA number
Housing Finance Agencies Risk Sharing Program	14.188
Section 8 Housing Choice Vouchers	14.195
Community Development Block Grant/Neighborhood Stabilization Program	14.228

Dollar threshold used to distinguish between type A and type B programs $3,000,000

Auditee qualified as low-risk auditee?	x	yes	______	no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

Finding Number: 2013-001

Federal Agency: U.S. Department of Housing and Urban Development

Program Name: Community Development Block Grant/Neighborhood Stabilization Program (NSP)

CFDA No. and Program Expenditures: 14.228 ($3,463,573)

Grant Numbers: 09-NSP-2-J-01

Fiscal Program Award Year Ended: 2014

Compliance Requirement: Reporting

Type of Finding: Instance of Noncompliance and Significant Deficiency in Internal Control

Questioned Cost: None

Responsible Division: NSP Program Personnel

Condition

Per OMB Circular A-133 and the Grant Agreement, the program is required to submit bimonthly reports to the funding agent. Of the three reports tested, we noted an instance in one of the three reports where MFA did not accurately support the information submitted to the Department of Finance and Administration as follows:

- September 2014:

MFA source document	Bimonthly report	Report item	Difference
NSP administration expenditures to date per activity – other funds used	$ 54,886	52,687	2,199

Criteria

Joint Powers Agreement Amendment No. 4 requires MFA to submit bimonthly progress reports. These reports must provide detailed information on MFA's progress toward achieving the required benchmarks.

Cause

The Authority did not ensure the accuracy of the bimonthly report information prior to the report submission.

Effect

The lack of adequate review increases the risk of inaccurate reporting.

Auditors' Recommendation

We recommend that each report be independently reviewed by someone other than the preparer. This review would entail a review of the report and all relevant supporting documentation to ensure the report is complete and accurate prior to submission.

Response

Management agrees. The final report dated November 1, 2014 was accurately prepared and reviewed by someone other than the preparer. The Neighborhood Stabilization Program grant is in the process of being closed and no additional reports will be required.

Finding Number: 2014-001

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Program Name: Housing Finance Agencies Risk Sharing Program

CFDA No. and Program Expenditures: 14.188 ($91,594,826)

Grant Numbers: N/A

Fiscal Program Award Year Ended: 2014

Compliance Requirement: Eligibility

Type of Finding: Instance of Noncompliance

Questioned Cost: None

Responsible Division: Risk Sharing Program Personnel

Condition

For two of two mortgage files tested, we noted MFA did not include the HUD required covenant in the event of a modification of terms of the mortgage.

Criteria

Under the Chapter 6(C) (8), Housing Finance Authority (HFA) Closing and HUD Endorsement of Loan, a mortgage executed under the Risk Sharing program must contain a covenant requiring that, in the event that the HFA and the owner agree to a modification of the terms of the mortgage (e.g., to reflect a reduction of the interest rate if reductions are realized in the underlying bond rates for the project), Section 8 rents would be reduced in accordance with HUD guidelines in effect at the time.

Cause

The Authority was not ensuring that the loan template used for Risk Sharing loans contained all required HUD provisions.

Effect

MFA was not be in compliance with HUD requirements and did not have a process in place to identify the missing clause.

Auditors' Recommendation

Management should review the loan template for the inclusion of all HUD required provisions. Based on communications from HUD, management should include the provision in the template moving forward.

(Continued)

Response

Management agrees. The Authority's legal counsel will review the Risk Sharing loan document templates to ensure that HUD required provisions are included. The Authority informed HUD of this omission in the document and HUD's responded as follows: "We encourage you to include this clause in your agency's risk sharing mortgages as soon as possible. Given this information, the Department is not requiring your agency to modify the terms of existing mortgages that have already closed to satisfy this requirement. However, from this point on, the clause will need to be included." The Authority will include the clause in all future Risk Sharing mortgages.

Other Findings as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978

Not Applicable

OTHER REQUIRED DISCLOSURES

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Schedule of Pledged Collateral for Public Funds

September 30, 2014

		Bank balance	Book balance
Wells Fargo MFA Housing Programs deposit account	$	2,820,481	2,874,528
Wells Fargo MFA Housing Programs repurchase agreement		54,047	
FDIC Insurance		(70,512)	
Uninsured public funds	$	2,804,016	

		Bank balance	Required collateral
50% collateral requirement for deposit account	$	2,749,969	1,374,985
102% collateral requirement for repurchase agreement		54,047	55,127
Total collateral requirement	$	2,804,016	1,430,112

		CUSIP	Rate	Maturity		
Collateral (at fair value):						
Deposit account	FNMA pooled security	3138AW4D2	4.00%	2/1/2043	$	2,094,341
	FNMA pooled security	3138W9AZ3	3.50	8/1/2043		424,851
	FNMA pooled security	3138X3XX5	4.00	5/1/2043		104,736
	FNMA pooled security	31417FPV4	3.50	6/1/2043		24,984
Repurchase agreement	FNMA pooled security	3138AD4Q5	4.00	10/1/2041		55,128
	Total collateral (at fair value)				$	2,704,040
Over collateral requirement					$	1,273,928

Wells Fargo has pledged the above collateral, which is being held in safekeeping by Bank of New York Mellon and Wells Fargo Bank Northwest NAB.

The collateral and FDIC insurance reflect the proportionate share of federal and state amounts in the Wells Fargo MFA Housing Programs deposit account.

See accompanying independent auditors' report.

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)

Exit Conference

Year ended September 30, 2014

(unaudited)

Exit Conference

An exit conference was conducted on December 9, 2014 in which the contents of this report were discussed with the following:

New Mexico Mortgage Finance Authority:	
Dennis Burt	Chair of Finance Committee and Board
Steven Smith	Finance Committee and Board Member
Mark Van Dyke	Finance Committee Member
Jay Czar	Executive Director
Gina Hickman	Deputy Director of Finance and Administration
Joseph Montoya	Deputy Director of Programs
Yvonne Segovia	Controller
Erik Nore	Director of Home Ownership
KPMG LLP:	
John Kennedy	Partner
Nick Williams	Manager
New Mexico Office of the State Auditor:	
Melissa Spangler	Financial Audit Director
Andrew Gallegos	Audit Supervisor
Cynthia Padilla	Senior Auditor
Lori Narvaiz	Senior Auditor