REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS WITH
SUPPLEMENTAL SCHEDULES

FOR

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

September 30, 2017 and 2016

Table of Contents

Table of Contents

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Board of Directors
September 30, 2017

Name	Title
Dennis Burt	Chairman
Angel Reyes	Vice Chairman
Steven J. Smith	Treasurer
Tim Eichenberg, New Mexico State Treasurer	Member
John A. Sanchez, New Mexico Lieutenant Governor	Member
Hector Balderas, New Mexico Attorney General	Member
Randy McMillan	Member

MOSSADAMS

Report of Independent Auditors

To the Authority Members
New Mexico Mortgage Finance Authority and
Mr. Timothy Keller, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2017 and 2016, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 auditor's 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the New Mexico Mortgage Finance Authority as of September 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplementary schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The supplementary schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Authority's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
November 30, 2017

This page intentionally left blank.

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 New Mexicans of low to moderate income.

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, 2017, 2016, and 2015. 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.

Overview of the Financial Statements

The basic financial statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the notes thereto. The Authority follows enterprise fund accounting. The financial statements offer information about the Authority's activities and operations.

The Statements of Net Position include all of the Authority's assets and liabilities, presented in order of liquidity, along with deferred outflows and deferred inflows which represent deferrals of resources related to future periods. The resulting net position presented in these statements is displayed as invested in capital assets, restricted or unrestricted. Net position is restricted when its use is subject to external limits such as bond indentures, legal agreements or statutes.

All of the Authority's current year revenues and expenses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the activities of the Authority's operations over the past year and presents the resulting change in net position.

The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Authority's cash receipts and cash payments during the reporting period. These statements report cash receipts, cash payments and net changes in cash resulting from operating, noncapital financing, capital and related financing and investing activities. These statements also provide information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

Required and other supplementary information is presented following the notes to financial statements to provide selected supplemental information, such as combining schedules for the Authority's programs.

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):

		2017	2016	2015
Cash and cash equivalents (unrestricted and restricted)	$	72,123	75,374	67,707
Notes receivable		22,268	13,404	—
Investments (unrestricted and restricted)		61,071	63,883	62,572
Mortgage-backed securities and mortgage loans receivable		775,794	837,251	870,148
Total assets		942,204	997,686	1,007,430
Bonds payable		646,567	698,555	737,956
Total liabilities		695,260	745,046	762,487
Total net position		247,569	253,520	246,098
Total operating revenues		50,481	48,550	45,701
Total operating expenses		38,228	38,725	41,348
Operating income		12,253	9,825	4,353
Total nonoperating (expenses) revenues		(18,204)	(2,403)	196
Change in net position		(5,951)	7,422	4,549

Financial Position

The net position of the Authority decreased $6.0 million from September 30, 2016 to September 30, 2017 and increased $7.4 million from September 30, 2015 to September 30, 2016. The following table is a condensed summary of net position at September 30, 2017, 2016, and 2015 (in thousands):

		2017	2016	2015
Assets:				
Current assets	$	92,579	79,183	55,658
Noncurrent assets		849,625	918,503	951,772
Total assets		942,204	997,686	1,007,430
Deferred outflows of resources:				
Unamortized loss on refunding		625	880	1,155
Total deferred outflows of resources		625	880	1,155
Liabilities:				
Current liabilities		59,265	72,775	34,749
Noncurrent liabilities		635,995	672,271	727,738
Total liabilities		695,260	745,046	762,487
Net position:				
Invested in capital assets, net of related debt		1,054	995	1,003
Restricted		56,472	78,017	79,466
Restricted for land title trust and housing trust		27,974	27,369	26,631
Unrestricted		162,069	147,139	138,998
Total net position	$	247,569	253,520	246,098

Comparison of Years Ended September 30, 2017 and 2016

The decrease in cash and cash equivalents of $3.3 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. This decrease is offset by an increase in funds obtained through borrowings from the Federal Home Loan Bank of Dallas made to fund single family mortgage loans originated through the Authority's mortgage programs. MFA purchased $53.9 million in Mortgage Backed Securities (MBS) and $33.5 million in whole loans during the year; MBS and whole loan purchases were offset by $85.6 million in repayments, including prepayments, of securitized mortgage loans and $43.6 million of whole loan and down payment assistance loan repayments, including prepayments, during the year, reflected in the $61.5 million net decrease of MBS and mortgage loans receivable. Essentially, repayments occurred without a corresponding increase in new loans. In addition, due to market conditions, in late 2013, the Authority began utilizing the secondary market to fund the majority of its single family mortgage loans, whereby the MBS are sold into the secondary market rather than purchased with bond proceeds and booked as assets on the balance sheet. Instead of a long-term annuity cash flow from the bond issue, MFA receives the cash upfront as transaction fees. This is a best execution funding mechanism for the Single Family Mortgage Program when a bond transaction is not viable. The current interest rate environment continues to limit the Authority's ability to issue new bonds. Current interest rates in the traditional mortgage loan market have been lower than the mortgage interest rates that can be achieved through new housing bond issuances. The business model of selling loans via the secondary market is used by many Housing Finance Agencies (HFAs) across the country to assist in keeping single family programs competitive and in stabilizing revenue streams. The overall effect of these elements resulted in the 5.6% decrease in total assets. The sale of loans into the secondary market also impacts the liabilities of the Authority. Over the past year, the Authority experienced a $52.0 million net decrease in bonds payable. As already noted, single family loans are being sold and not funded with debt, thus MFA's liabilities decreased 6.7%. Proceeds from the sale of bonds and notes payable were $274.4 million; bond and note repayments and refundings totaled $321.3 million, resulting in the net decrease for the year.

Comparison of Years Ended September 30, 2016 and 2015

The increase in cash and cash equivalents of $7.7 million reflects funds obtained through borrowings from the Federal Home Loan Bank of Dallas made to fund single family mortgage loans originated through the Authority's mortgage programs. This increase is offset by 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 higher interest rate debt. MFA purchased $38.9 million in Mortgage Backed Securities (MBS) and $28.8 million in whole loans during the year; MBS and whole loan purchases were offset by MBS prepayments of $72.5 million and whole loan prepayments of $.5 million, reflected in the $32.9 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. Selling MBS into the secondary market provides a funding mechanism for the Single Family Mortgage Program when a bond transaction is not viable. 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 the interest rates for mortgage loans that can be achieved through new bond issuances without some form of subsidy. The business model of selling loans via the secondary market is used by many HFAs across the country to assist in keeping single family programs competitive and in stabilizing revenue streams. The overall effect of these elements resulted in the 1.0% decrease in total assets. The sale of loans into the secondary market also impacts the liabilities of the Authority. Over the past year, the Authority experienced a $39.4 million net decrease in bonds payable. As already noted, single family loans are being sold and not funded with debt, thus Authority liabilities decreased 2.3%. However, the Authority has seen an increase in current liabilities of $38.0 million primarily related to the $23.0 million increase of notes payable for current borrowings to support the Authority's mortgage programs as noted above. This notes payable increase is offset by the increase in cash and cash equivalents and notes receivable. Proceeds from the sale of bonds and notes payable were $159.6 million; bond and note repayments and refundings totaled $173.5 million, resulting in the net decrease for the year. The Authority received $86.5 million in repayments, including prepayments, of securitized mortgage loans and $9.2 million of whole loan and down payment assistance loan repayments during the year.

Change in Financial Position

MFA's operating income for the year increased by approximately $2.4 million when compared to fiscal year 2016. The following table is a condensed summary of changes in net position for the years ended September 30, 2017, 2016, and 2015 (in thousands):

		2017	2016	2015
Operating revenues:				
Interest on loans and MBS	$	33,928	34,759	36,962
Interest on securities and investments		2,355	2,564	2,781
Program revenues		2,836	959	926
Loan and commitment fees		520	453	348
Administrative fees		9,560	7,013	5,286
Other revenues		1,282	2,802	(602)
Total operating revenues		50,481	48,550	45,701
Operating expenses:				
Interest expense		24,435	26,987	30,174
Administrative fees and other expenses		13,793	11,738	11,174
Total operating expenses		38,228	38,725	41,348
Operating income		12,253	9,825	4,353
Nonoperating revenues (expenses):				
Net (decrease) increase in fair value of investments		(18,195)	(2,323)	(326)
Grant award income		43,095	42,970	44,050
Grant award expense		(43,095)	(42,970)	(44,050)
State appropriations		-	-	500
Land title trust contributions		28	30	22
Land title trust distributions		(37)	(110)	-
Total nonoperating (expenses) revenues		(18,204)	(2,403)	196
Change in net position		(5,951)	7,422	4,549
Total net position, beginning of year		253,520	246,098	241,549
Total net position, end of year	$	247,569	253,520	246,098

Comparison of Years Ended September 30, 2017 and 2016

Operating revenues increased $1.9 million from 2016 to 2017, approximately 4.0%, as a result of increased housing program and program servicing fees offset by a reduction in realized State Investment Council fair market value adjustments and mortgage interest revenue. Program servicing fees increased by $1.8 million due to the implementation of a new servicing model. With this new business line MFA purchases the mortgage servicing rights on its mortgage program loans and earns a long-term annuity flow from the asset. As this portfolio grows, the income stream will also continue to grow over time.

Operating expenses decreased by $.5 million in 2017, approximately 1.3%, primarily due to decreased interest expense as a result of lower debt service due to continued prepayments, secondary market loan sales and debt restructuring. This decrease was offset by increased administrative expense.

The change in fair value of securities for 2017 was a decrease of $18.2 million compared to a decrease of $2.3 million in 2016. This represents a decrease in the overall fair market value of investments, held at September 30, 2017 compared to September 30, 2016. These valuation changes are due to the interest rate sensitivity of these assets and they are adjusted as required by GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools (GASB No. 31) to fair value.

The majority of the assets impacted by the GASB valuation requirement are the MBS held on MFA's balance sheet that serve as collateral for the single family bonds issued and provide the revenue source to repay those debt obligations; legally MFA cannot sell or trade the related securities unless the bonds are optionally redeemable and also redeemed. Rating agencies do not include GASB No. 31 valuation adjustments in their analysis of an HFA's performance; these adjustments represent unrealized gains or losses and MFA considers these valuation changes non-operating revenues.

Comparison of Years Ended September 30, 2016 and 2015

The change in fair value of securities for 2016 was a decrease of $2.3 million compared to a decrease of $.3 million in 2015. This line represents a decrease in the overall fair value of investments, including securitized mortgage loans, held at September 30, 2016 compared to their fair value at September 30, 2015. These valuation changes are due to the interest rate sensitivity of these assets and they are adjusted 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; legally MFA cannot sell/trade the related securities unless the bonds are optionally redeemable and also redeemed. MFA's rating agencies do not include GASB No. 31 valuation adjustments in their analysis of an HFA's performance; these adjustments represent unrealized gains/losses and MFA considers these valuation changes non-operating revenues.

Operating revenues increased $2.8 million from 2015 to 2016; without the required GASB No. 31 adjustment operating revenues were $2.8 million more than in 2015. As a result of single family secondary market loan sales, continued high prepayment activity and the low interest rate environment in general, the Authority experienced a decrease in mortgage interest revenue of approximately $2.2 million in the current year. Additionally, other revenues increased $3.4 million in 2016 as the realized State Investment Council fair market value adjustments increased $3.0 million in comparison to 2015.

Operating expenses decreased by $2.6 million in 2016, approximately 6.3%, primarily due to decreased interest expense of $3.2 million as a result of lower debt service due to continued prepayments, secondary market loan sales and debt restructuring.

Debt Administration

Most of the debt maintained by the Authority to fund affordable housing activities in New Mexico is tax-exempt bonds which are 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.

In conjunction with bond issuance activities, MFA 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. MFA evaluates other innovative bond financing structures and asset/liability management strategies as needed to maximize earnings in both the long and short term. This includes evaluating tax-exempt housing bond structures, issuing taxable bonds when rates are beneficial, and reviewing callable bond 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. MFA reviews and monitors indenture program parity, cash flow projections, and prepayment speeds. Management of the overall bond portfolio and related assets is an active and ongoing process.

During fiscal year 2017, the Authority issued $96.1 million of Single Family Mortgage Program revenue bonds of which approximately $27.9 million was related to bond refunding transactions. This is $30.7 million less than the $108.6 million issued in 2016. MFA also sold $293.7 million of single family 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 the improved interest rate environment, the continuous lending loan origination model, and utilization of the secondary market to fund single family loans, interest margin increased approximately $.6 million this fiscal year in comparison to 2016. MFA redeemed $131.9 million of Single Family Mortgage Program bonds due to repayments and maturities, compared to $158.3 million in 2016.

During fiscal year 2016, the Authority issued $108.6 million of Single Family Mortgage Program revenue bonds of which approximately $68.6 million was related to bond refunding transactions. This is $26.8 million more than the $81.8 million issued in 2015. MFA also sold $256.8 million of single family 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 monthly 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, interest margin increased approximately $.9 million this fiscal year in comparison to 2015. MFA redeemed $158.3 million of Single Family Mortgage Program bonds due to repayments and maturities, compared to $152.7 million in 2015.

During fiscal year 2017, the Authority issued $22.2 million in Rental Housing Bonds, while in 2016 $10.3 million Rental Housing Bonds were issued. In 2017, $32.1 million of Rental Housing Bonds were redeemed due to repayments and maturities compared to $1.8 million in 2016.

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.

In addition to issuing bonds to fund MFA's Single Family Mortgage Program, MFA also uses short-term borrowings from the Federal Home Loan Bank of Dallas to support the warehousing of single family mortgages originated through the mortgage program as noted in the discussions related to cash and cash equivalents. As of September 30, 2017 those notes outstanding total $25.7 million, in comparison to $22.9 million at the end of 2016. MFA relies on this liquidity to purchase program mortgages.

Economic Outlook

MFA's Single Family Mortgage Program, administration of federal affordable housing programs and investment income are the main sources of revenues. During 2017, the Authority's programs and investment returns continued to be adversely affected by erratic capital markets and federal fiscal policy related to interest rates. We did continue to see better overall economic performance again this year as gross domestic product improved, unemployment decreased and the housing market continued to stabilize.

MFA's Single Family Mortgage Programs rely on short-term liquidity to purchase the mortgage loans from the lenders which are then securitized into Federal National Mortgage Association (Fannie Mae) and Government National Mortgage Association (Ginnie Mae) MBS by MFA's third party sub-servicer. The underlying mortgage loans are all fixed-rate, 30-year loans meeting the criteria for guarantee by Fannie Mae and Ginnie Mae. The Fannie Mae and Ginnie Mae guarantees ensure that the holder of the security issued by the Authority receives the timely payment of scheduled monthly principal and any unscheduled recoveries of principal on the underlying mortgages, plus interest at the rate provided for in the securities. To date, Fannie Mae, Ginnie Mae, MBS and bond investors have continued to provide liquidity without interruption to MFA's Single Family Mortgage Program.

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 (U.S.) long-term rating to AA+ due to political risks and rising debt burden. A "Negative Outlook" was also placed on the rating. During 2015, 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. During 2015, the Authority changed its primary rating agency relationship to Moody's Investors Service. Moody's has not downgraded the U.S. therefore their ratings on the Authority's single family housing bonds moving forward will be AAA.

Prior to 2010 the programs have 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. Those GIC providers must maintain financial strength as evidenced by their credit rating in order for the bonds to maintain their rating. MFA continues to have difficulty maintaining and securing GIC providers for the Single Family Mortgage Program and is utilizing AAAm rated money market funds when necessary. Returns on money market funds have improved over the last few years allowing MFA to limit the negative arbitrage experienced for these programs. Restricted cash related to bond issuance remain fully invested and cash flows are monitored closely. Despite the low interest rates and low reinvestment rate assumptions, all of the Authority's single family bonds continue to meet all required rating agency cash flow stress tests.

MFA'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 New Mexico State Investment Council Investment Funds Program utilizing corporate investment grade bond funds, (80%) as well as a large cap equities fund (20%). To improve investment returns, the Authority has also invested in its own MBS as bond programs become callable and residual MBS from the transactions are available. This strategy is helping to improve investment income returns as that portion of our investment portfolio is yielding about 5.3% serving as a good intermediate term investment option for the Authority. During this fiscal year, the Treasury and Agency obligations provided yields of 1.3%. Investments in the State Investment Council Investment Funds Program experienced $.5 million in fair market value gains in comparison to 2016 when fair market value gains were $2.3 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 2017 was 3.74%.

Moving into fiscal year 2018, 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 fiscal year 2018 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 one-time 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. MFA does, however, believe that the down payment assistance programs will help in maintaining program demand and viability. Additionally, MFA will continue to purchase the mortgage servicing rights associated with the Single Family Mortgage Program growing that new revenue base for the organization.

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. MFA 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. MFA 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. MFA 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 Fourth Street SW, Albuquerque, New Mexico 87102, or visit our website at www.housingnm.org.

This page intentionally left blank.

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Statements of Net Position

ASSETS	(In Thousands) September 30, 2017	2016
Current assets:		
Cash and cash equivalents:		
Unrestricted	$ 38,718	$ 33,636
Restricted	15,257	14,959
Restricted cash held in escrow	10,338	11,248
Total cash and cash equivalents	64,313	59,843
Notes receivable	22,268	13,404
Accrued interest receivable	3,084	3,325
Other current assets	2,914	2,611
Total current assets	92,579	79,183
Noncurrent assets:		
Restricted cash and cash equivalents	7,810	15,531
Investments:		
Restricted investments	10,484	10,173
Unrestricted investments	50,010	52,716
Unrealized gain on restricted and unrestricted investments	577	994
Total investments, net	61,071	63,883
Restricted securitized mortgage loans, net:		
Securitized mortgage loans, net	558,105	591,767
Unrealized gain on securitized mortgage loans	22,431	40,209
Restricted securitized mortgage loans, net	580,536	631,976
Mortgage loans, net:		
Restricted mortgage loans, net	100,221	115,281
Restricted trust funds mortgage loans, net	16,211	16,416
Unrestricted mortgage loans, net	78,826	73,578
Total mortgage loans, net	195,258	205,275
Capital assets, net	1,054	995
Intangible assets	3,521	394
Other noncurrent assets	375	449
Total noncurrent assets	849,625	918,503
Total assets	942,204	997,686
Deferred outflows of resources:		
Unamortized loss on refunding	625	880
Total assets and deferred outflows of resources	$ 942,829	$ 998,566

See accompanying notes.

	(In Thousands) September 30, 2017	2016
LIABILITIES AND NET POSITION		
Current liabilities:		
Escrow deposits and reserves	$ 10,248	$ 11,248
Accrued interest payable	2,461	3,261
Accounts payable and other accrued expenses	6,114	4,733
Compensated absences	414	373
Current portion of bonds payable	14,254	30,186
Current portion of notes payable	25,774	22,974
Total current liabilities	59,265	72,775
Noncurrent liabilities:		
Bonds payable	632,313	668,369
Notes payable	3,437	3,606
Accrued arbitrage rebate	-	51
Other noncurrent liabilities	245	245
Total noncurrent liabilities	635,995	672,271
Total liabilities	695,260	745,046
Net position:		
Net investment in capital assets	1,054	995
Restricted for debt service	56,472	78,017
Restricted for land title trust and housing trust	27,974	27,369
Unrestricted	162,069	147,139
Total net position	247,569	253,520
Total liabilities and net position	$ 942,829	$ 998,566

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Statements of Revenues, Expenses, and Changes in Net Position

	(In Thousands) Years Ended September 30, 2017	2016
Operating revenues:		
Interest on mortgage loans and securitized mortgage loans	$ 33,928	$ 34,759
Interest on securities and investments	2,355	2,564
Housing program income	1,187	1,094
Program servicing fees	1,649	(135)
Loan and commitment fees	520	453
Administrative fees	9,560	7,013
Other revenues	1,282	2,802
Total operating revenues	50,481	48,550
Operating expenses:		
Interest expense	24,435	26,987
Bond issuance costs	993	1,154
Provision for loan losses	19	798
Administrative and other expenses	12,781	9,786
Total operating expenses	38,228	38,725
Operating income	12,253	9,825
Nonoperating (expenses) revenues:		
Net decrease in fair value of investments	(18,195)	(2,323)
Grant income	43,095	42,970
Grant expense	(43,095)	(42,970)
Land title trust contributions	28	30
Land title trust distributions	(37)	(110)
Total nonoperating expenses	(18,204)	(2,403)
Change in net position	(5,951)	7,422
Total net position, beginning of year	253,520	246,098
Total net position, end of year	$ 247,569	$ 253,520

See accompanying notes.

	(In Thousands) Years Ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchase of loans	$ (33,495)	$ (28,783)
Receipts of loan repayments	43,595	9,178
Loan and commitment fees	520	453
Mortgage interest received	35,970	36,449
Purchase of securitized mortgage loans	(53,907)	(38,936)
Principal repayment of securitized mortgage loans	85,633	86,479
Restricted escrow and reserves, net	(1,001)	374
Receipts for services	11,879	3,072
Payments to employees for services	(6,449)	(5,879)
Payments to suppliers of goods or services	(4,957)	(3,608)
Other (payments) receipts	(2,571)	4,707
Net cash flows from operating activities	75,217	63,506
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from sale of bonds and notes payable	274,378	159,575
Repayment and refunding of bonds and notes payable	(321,265)	(173,505)
Payment of interest on bonds and notes	(27,651)	(30,636)
Payment of arbitrage rebate, net	1	3
Payment for bond issuance costs	(791)	(1,027)
Receipt of grant income	43,247	42,545
Payment of grant to subrecipients	(43,247)	(42,545)
Contributions to land title trust	28	30
Land title trust distribution	(37)	(110)
Net cash flows from noncapital financing activities	(75,337)	(45,670)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(191)	(120)
Proceeds from the sale of capital assets	2	-
Net cash flows from capital financing activities	(189)	(120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments of notes receivable	(8,865)	(13,404)
Purchase of other real estate owned	(36)	30
Purchase of investments	(99,729)	(12,999)
Proceeds from maturity and sale of investments	103,468	14,835
Investment interest income	1,458	1,440
Premium on investments	(3)	(16)
Gain on sale of securities	765	65
Net cash flows from investing activities	(2,942)	(10,049)
Net (decrease) increase in cash and cash equivalents	(3,251)	7,667
CASH AND CASH EQUIVALENTS, beginning of year	75,374	67,707
CASH AND CASH EQUIVALENTS, end of year	$ 72,123	$ 75,374
Current cash and cash equivalents	$ 64,313	$ 59,843
Noncurrent cash and cash equivalents	7,810	15,531
Cash and cash equivalents, end of year	$ 72,123	$ 75,374

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Statements of Cash Flows (Continued)

	(In Thousands) Years Ended September 30, 2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 12,253	$ 9,825
Adjustments to reconcile operating income to net cash cash from operating activities:		
Bond issuance costs	993	1,154
Loan and commitment fees	(520)	(453)
Amortization of securitized mortgage loans and mortgage loan discounts/premiums	1,828	2,064
Gain on sale of assets	(649)	(37)
Depreciation and amortization expense	200	134
Provision of loan losses	19	798
Investment interest income	(2,355)	(2,564)
Interest on bonds and notes payable	24,435	26,987
Changes in assets and liabilities:		
Accrued interest receivable on securitized mortgage loans and mortgage loans	211	159
Other current assets	(303)	(658)
Other noncurrent assets	(3,053)	42
Accounts payable and other accrued expenses	1,381	(68)
Compensated absences	41	15
Other noncurrent liabilities	-	(1)
Securitized mortgage loans, net cost	30,164	44,917
Mortgage loans	10,572	(18,808)
Net cash flows from operating activities	$ 75,217	$ 63,506

See accompanying notes.

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies

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 of the Authority.

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.

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*. Because the Schedule presents only a selection portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

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.

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. Significant estimates to the Authority's financial statements include the allowance for loan losses and fair value estimates. Actual results could differ from those estimates.

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies (continued)

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. Management expects to be able to securitize single family mortgage loans to maturity with no funding requirement necessary from the Authority. Each single family bond indenture is accounted for as a segment. See supplementary schedules.
- 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. The deficit in rental housing programs' net position restricted for debt service is primarily attributable to balances that will amortize over the life of the loan, which are not expected to result in long-term deficiencies in this fund. Each multifamily bond indenture is accounted for as a segment. See supplementary schedules.
- 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, 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.

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies (continued)

- *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.
- *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 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).
- *Federal Housing Trust Fund* (HTF) – The HTF, funded by an assessment on loans made by Fannie Mae and Freddie Mac and administered by HUD, was established under the Housing and Economic Recovery Act of 2008. The purpose of the HTF is to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low-income and very low-income households, including homeless families. The Authority's program provides funds for the production, preservation, and rehabilitation of affordable rental housing units for families earning no more than 30% of the area median income.
- *New Mexico Housing Trust Fund (NMHTF)* – The NMHTF'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; 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.

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies (continued)

- *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.

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. Also included in restricted cash are escrow balances held in deposit on behalf of mortgages for whom the Authority acts as servicer.

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) and GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72).

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 nonoperating revenues (expenses) 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 and GASB No. 72. The bond issue trustees use a third-party pricing service to compute the MBS fair value.

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies (continued)

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, 2017 and 2016 were $4.4 million and $5.0 million, respectively, of loans to borrowers of certain nonprofit organizations, which are subject to reimbursement provisions in lieu of insurance.

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.

Interest on mortgage loans – Interest on mortgage loans is accrued based upon the principal amounts outstanding net of service fee expenses of approximately $88,000 and $90,000 as of September 30, 2017 and 2016, respectively. Mortgage loans are placed on nonaccrual after 90 days delinquency.

Loan 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.

Bond issuance costs – Bond issuance costs are expensed in the period incurred.

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. Assets under construction are capitalized on the statement of financial position as capital assets, net. However, depreciation expense is not computed on assets under construction until the asset is put into service. Furniture and

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies (continued)

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.

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 are carried at lower of cost or market; 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).

Deferred outflow of resources – For current and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter. The difference is amortized using the effective interest method. The deferred refunding amounts are classified as a component of deferred outflows on the Statements of Net Position.

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.

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.

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

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies (continued)

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.

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.

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 and adjustments to fair market values in accordance with GASB No. 31. Grant award 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:

Note 1 – Basis of Accounting and Summary of Significant Accounting Policies (continued)

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 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 and adjustments to fair market values in accordance with GASB No. 31.

Income taxes – The income the Authority earns in the exercise of its essential government functions is excluded from federal income tax under Section 115(l) 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.

Note 2 – Cash, Cash Equivalents, and Investments

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

	September 30, 2017	September 30, 2016
Cash on deposit at financial institutions	$ 35,172	$ 29,711
Cash on deposit at New Mexico State Treasurer	4,338	4,663
Cash on deposit held in escrow (Note 17)	10,338	11,248
Cash equivalents not considered deposits:		
Money market funds	18,507	20,374
Repurchase agreements	444	444
Guaranteed investment contracts	3,324	8,934
	$ 72,123	$ 75,374

Investment policy – The Authority's investment policy requires all investments be made in accordance with the prudent person rule whose primary objectives are to preserve capital, provide needed liquidity and achieve the highest market yield. Investments will be diversified to the extent permitted in Section 58, NMSA 1978 (MFA Act), Section 6-8-7, NMSA 1978, and Section 6-10-10.1 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

Note 2 – Cash, Cash Equivalents, and Investments (continued)

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 Website at www.nmsto.gov. Participation in the local government pool is voluntary.

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, 2017 and 2016, the Authority's bank balance was approximately $37,182,000 and $25,893,000, respectively. The Federal Deposit Insurance Corporation (FDIC) insures each depositor up to $250,000 per insured bank. The total amounts subject to custodial credit risk at September 30, 2017 and 2016 are approximately $28,745,000 and $12,568,000, respectively. Management does not believe the remaining approximately $7,937,000 and $13,075,000 is subject to custodial credit risk at September 30, 2017 and 2016, respectively.

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

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. 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.

Note 2 – Cash, Cash Equivalents, and Investments (continued)

The Authority had the following cash and cash equivalents and investments and maturities at September 30, 2017 and 2016 (in thousands):

	September 30, 2017					
		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1–5	6–10	More than 10	Not Available
Money market funds	$ 18,507	$ 18,507	$ -	$ -	$ -	$ -
Repurchase agreements	444	444	-	-	-	-
Guaranteed investment contracts	3,324	1,394	-	-	1,930	-
Internal state investment pools:						
State Treasurer	4,338	4,338	-	-	-	-
State Investment Council	28,835	-	-	-	-	28,835
U.S. agencies	15,927	2,994	12,933	-	-	-
Securitized mortgage loans:						
Unrestricted	10,794	-	-	1,868	8,926	-
Restricted	580,536	-	-	7,009	573,527	-
	$ 662,705	$ 27,677	$ 12,933	$ 8,877	$ 584,383	$ 28,835

	September 30, 2016					
		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1–5	6–10	More than 10	Not Available
Money market funds	$ 20,374	$ 20,022	$ -	$ -	$ 352	$ -
Repurchase agreements	444	444	-	-	-	-
Guaranteed investment contracts	8,934	6,277	51	-	2,606	-
Internal state investment pools:						
State Treasurer	4,663	4,663	-	-	-	-
State Investment Council	31,700	-	-	-	-	31,700
U.S. agencies	13,018	-	13,018	-	-	-
Securitized mortgage loans:						
Unrestricted	12,893	-	-	6,255	6,638	-
Restricted	631,976	-	-	549	631,427	-
	$ 724,002	$ 31,406	$ 13,069	$ 6,804	$ 641,023	$ 31,700

The following tables provide information on the credit ratings associated with the Authority’s cash and cash equivalents and investments at September 30, 2017 and 2016 (in thousands):

Note 2 – Cash, Cash Equivalents, and Investments (continued)

	September 30, 2016						
Investment Type	Fair Value	AAA	AA	A	U.S. Government Guaranteed	Not Rated	Not Available
Money market funds	$ 20,374	$ 20,153	$ 61	$ 160	$ -	$ -	$ -
Repurchase agreements	444	-	444	-	-	-	-
Guaranteed investment contracts	8,934	-	7,275	1,659	-	-	-
Internal state investment pools:							
State Treasurer	4,663	4,663	-	-	-	-	-
State Investment Council	31,700	-	-	-	-	-	31,700
U.S. agencies	13,018	-	13,018	-	-	-	-
Securitized mortgage loans:							
Unrestricted	12,893	-	4,927	-	7,966	-	-
Restricted	631,976	-	106,622	-	525,354	-	-
	$ 724,002	$ 24,816	$ 132,347	$ 1,819	$ 533,320	$ -	$ 31,700

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 Statements of Net Position as of September 30, 2017 and 2016, respectively: Ginnie Mae 78% and 77%, and Fannie Mae 15% and 17%.

Fair value reporting – The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

All investments are valued using quoted market prices (Level 1 inputs), except for the State Investment Council internal state investment pool, which is valued using Level 2 inputs.

Note 3 – Mortgage Loans, net

Mortgage loans reflected in the Statements of Net Position consist of the following as of September 30 (in thousands):

	2017	2016
Total mortgage loan principal outstanding	$ 197,522	$ 207,992
Less:		
Allowance for mortgage loan losses	(2,264)	(2,717)
Mortgage loans, net	$ 195,258	$ 205,275

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

Note 3 – Mortgage Loans, net (continued)

	2017	2016
Beginning balance	$ 2,717	$ 2,681
Provision for loan losses	19	798
Loans written off net of recoveries	(472)	(762)
Ending balance	$ 2,264	$ 2,717

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 8.99%
Second mortgage DPA loans	0.00% to 7.50%

MBSs have stated interest rates ranging from 2.75% and 7.49%.

As of September 30, 2017 and 2016, mortgage loans with pending foreclosure actions have aggregate principal balances of approximately $243,000 and $174,000, respectively. As of September 30, 2017 and 2016, mortgage loans' total delinquent aggregate principal balances are approximately $9,157,000 and $5,908,000, 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):

	2017	2016
Southwest Neighborhood Housing Services	$ 270	$ 508
TIWA Lending Services	5,283	4,813
AFL-CIO	2,787	2,834
Fannie Mae Loans	50,598	17,855
Habitat for Humanity/Valencia County	24	27
Ginnie Mae Loans	340,625	35,880
Northern Pueblos Housing Authority	271	-
Southwest Community Resources	16	19
Superior Mortgage	7	7
Wallick & Volk, Inc.	7	6
Hometrust	12	19
City of Albuquerque	16,269	11,509
Ventana Fund	2,468	1,256
	$ 418,637	$ 74,733

Note 4 – Capital Assets

Changes in capital assets during 2017 and 2016 were as follows (in thousands):

	October 1, 2016	Additions	Dispositions	September 30, 2017
Land (nondepreciable)	$ 512	$ -	$ -	$ 512
Building and improvements	3,066	-	-	3,066
Furniture and equipment	1,983	42	(89)	1,936
Construction in progress	-	149	-	149
Total capital assets	5,561	191	(89)	5,663
Less accumulated depreciation:				
Building and improvements	(2,723)	(62)	-	(2,785)
Furniture and equipment	(1,843)	(68)	87	(1,824)
Total accumulated depreciation	(4,566)	(130)	87	(4,609)
Capital assets, net	$ 995	$ 61	$ (2)	$ 1,054

	October 1, 2015	Additions	Dispositions	September 30, 2016
Land (nondepreciable)	$ 512	$ -	$ -	$ 512
Building and improvements	3,041	25	-	3,066
Furniture and equipment	1,895	95	(7)	1,983
Total capital assets	5,448	120	(7)	5,561
Less accumulated depreciation:				
Building and improvements	(2,654)	(69)	-	(2,723)
Furniture and equipment	(1,791)	(58)	6	(1,843)
Total accumulated depreciation	(4,445)	(127)	6	(4,566)
Capital assets, net	$ 1,003	$ (7)	$ (1)	$ 995

Note 5 – Bonds Payable

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

Single Family Mortgage Programs	2017	2016
2007 Series A – 4.625% to 5.75% interest payable semiannually, principal due through 2038	$ -	$ 6,725
2007 Series B – 4.20% to 5.30% interest payable semiannually, principal due through 2039	-	13,915
2007 Series C – 4.875% to 5.92% interest payable semiannually, principal due through 2039	-	8,920
2007 Series D – 5.00% to 6.27% interest payable semiannually, principal due through 2039	-	11,420
2007 Series E – 4.90% to 6.35% interest payable semiannually, principal due through 2039	-	12,185
2008 Series A – 5.00% to 5.60% interest payable semiannually, principal due through 2039	7,615	9,560
2008 Series B – 5.10% to 6.375% interest payable semiannually, principal due through 2039	5,720	6,830
2008 Series C – 5.00% to 6.95% interest payable semiannually, principal due through 2039	3,255	4,455
2008 Series D –4.25% to 5.50% interest payable semiannually, principal due through 2039	10,425	12,585
2009 Series A – 4.10% to 6.00% interest payable semiannually, principal due through 2039	6,415	7,565
2009 Series B – 3.80% to 5.65% interest payable semiannually, principal due through 2039	13,560	15,900
2009 Series C – 4.10% to 5.70% interest payable semiannually, principal due through 2040	16,175	20,410
2009 Series D – 3.70% to 5.35% interest payable semiannually, principal due through 2040	15,795	18,575
2009 Series E – 3.875% to 5.30% interest payable semiannually, principal due through 2040	15,320	17,855
2010 Series A – 4.50% to 4.625% interest payable semiannually, principal due through 2028	8,820	11,565
2011 Series A – 5.00% to 5.35% interest payable semiannually, principal due through 2030	11,340	14,195
2011 Series B – 2.77% to 5.00% interest payable semiannually, principal due through 2041	18,725	21,735
2011 Series C – 2.32% to 4.625% interest payable semiannually, principal due through 2041	21,910	26,385
2012 Series A – 1.80% to 4.25% interest payable semiannually, principal due through 2043	23,405	25,895

Note 5 – Bonds Payable (continued)

Single Family Mortgage Programs	2017	2016
2012 Series B – 2.10% to 3.90% interest payable semiannually, principal due through 2043	$ 33,315	$ 40,285
2013 Series A – 2.6% interest payable monthly, principal due through 2043	15,071	17,078
2013 Series B – 2.23% to 2.85% interest payable monthly, principal due through 2043	20,666	23,543
2013 Series C – 4.50% interest payable monthly, principal due through 2043	24,198	25,856
2014 Series A – 1.70% to 5.00% interest payable semiannually, principal due through 2044	10,495	11,725
2014 Series B – 2.75% interest payable monthly, principal due through 2035	7,180	8,583
2015 Series A - 1.10% to 4.00% interest payable semiannually, principal due through 2045	31,310	33,130
2015 Series B - 2.75% interest payable monthly, principal due through 2035	4,991	6,012
2015 Series C - 3.00% interest payable monthly, principal due through 2041	18,860	21,840
2015 Series D - 3.125% interest payable monthly, principal due through 2037	9,247	11,115
2015 Series E - 3.10% interest payable monthly principal due through 2037	14,851	18,334
2016 Series A - 0.90% to 3.80% interest payable semiannually principal due through 2046	54,525	60,390
2016 Series B - 2.60% interest payable monthly principal due through 2040	21,810	24,595
2016 Series C - 1.0% to 3.5% interest payable semiannually principal due through 2045	62,700	-
2017 Series A - 2.98% interest payable semiannually principal due through 2038	25,734	-
Subtotal	533,433	569,161
Unaccreted premium, net of underwriters' discount	9,773	10,291
Subtotal single family mortgage programs, net bonds payable	$ 543,206	$ 579,452

Note 5 – Bonds Payable (continued)

Rental Housing Mortgage Programs	2017	2016
2002 Series A&B Multi Family Risk Sharing – Sandpiper – 5.40% to 6.75% interest payable semiannually, principal due through 2038	$ 8,200	$ 8,405
2003 Series A&B Multi Family Risk Sharing – Aztec – 5.10% to 5.15% interest payable semiannually, principal due through 2038	7,755	7,940
2004 Series A&B Multi Family Risk Sharing – NM5 – 5.05% to 5.20% interest payable semiannually, principal due through 2039	7,540	7,710
2004 Series C&D Multi Family Risk Sharing – Alta Vista – 5.25% to 6.00% interest payable semiannually, principal due through 2039	10,660	10,885
2004 Series F & G Multi Family Risk Sharing – Arioso – 4.95% to 5.85% interest payable semiannually, principal due through 2040	-	9,720
2005 Series A & B Multi Family Risk Sharing – Las Palomas – 4.70% to 4.98% interest payable semiannually, principal due through 2040	10,190	10,405
2005 Series C & D Multi Family Risk Sharing – Chateau – 4.70% interest payable semiannually, principal due through 2040	3,525	3,605
2005 Series E & F Multi Family Risk Sharing – Sun Pointe – 4.80% to 5.06% interest payable semiannually, principal due through 2040	11,220	11,460
2007 A & B Multi Family Risk Sharing – St. Anthony – 5.05% to 5.25% interest payable semiannually, principal due through 2042	5,260	5,350
2007 C & D Multi Family – NM Rainbow 7 – 5.85% to 10.00% interest payable monthly for senior bonds and semiannually for subordinate bonds, principal due through 2043	12,862	13,032
2008 A & B Multi Family – Villas de San Ignacio variable interest rate * 0.96% and 1.40% at September 30, 2017 payable monthly, principal due through 2043	8,520	8,520

Note 5 – Bonds Payable (continued)

Rental Housing Mortgage Programs	2017	2016
2010 A & B Multi Family Risk Sharing – Villa Alegre Senior Housing – 5% interest payable semiannually, principal due through 2047	850	860
2012 A Multi Family – Gallup Apartments – 5% interest payable monthly, principal due through 2049	4,807	4,867
2014 A Multi-Family - Santa Fe Living - 3.0625% interest payable monthly, principal due through 2017	-	11,446
2016 A Multi-Family - Dona Ana Apartments - 4.50% interest payable monthly, principal due through 2017	-	4,760
2017 A Multi-Family - Shiprock Homes - 1.35% interest payable semiannually, principal due through 2020	11,800	-
2017 B Multi-Family - Pasa Tiempo - Variable interest rate* * (2.90% at September 30, 2017) principal due through 2020	50	-
Subtotal	103,239	118,965
Unaccreted premium	122	138
Subtotal rental housing mortgage programs, net bonds payable	$ 103,361	$ 119,103

* Determined on a weekly basis until adjusted to reset rates or fixed rates
** LIBOR plus 165 BPS determined two days prior to interest payment date

Capital Debt	2017	2016
Total bonds payable	$ 636,672	$ 688,126
Total unaccreted premium, net of unamortized discount	9,895	10,429
Total bonds payable	$ 646,567	$ 698,555

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 2017A. 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.

Note 5 – Bonds Payable (continued)

The single family mortgage loans purchased with the proceeds of all the bond issuances occurring during fiscal years 2017 and 2016 were pooled and packaged as mortgage loan pass-through certificates insured by Ginnie Mae or Fannie Mae.

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 US 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 US 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. In addition, the 2016 Series B bond was issued under this indenture.

During fiscal year 2017, the Authority continued to issue bonds under the General Indenture of Trust Dated November 1, 2005 as follows:

- $68.3 million Single Family Mortgage Program Class I Bonds, 2016 Series C-1 (Tax-Exempt) (Non AMT) and 2016 Series C-2 (Tax-Exempt) (AMT). The $50 million 2016 Series C-1 bonds were used to originate new loans. The $18.3 million 2016 Series C-2 bonds combined with funds in the trust estates, were used to fully refund the Single Family Mortgage Program Bonds 2007 Series A, and 2007 Series B. The Authority will realize a $2.8 million positive cash flow from this refunding and an economic gain of approximately $2.8 million.

- $27.9 million Single Family Mortgage Program Class I Bonds, 2017 Series A-2 (MBS Pass-Through Program) (Federally Taxable) combined with funds in the trust estates were used to fully refund the Single Family Mortgage Program Bonds, 2007 Series C, 2007 Series D and 2007 Series E. The Authority will realize a $6.0 million positive cash flow from this refunding and an economic gain of approximately $6.0 million.

During fiscal year 2016, the Authority continued to issue bonds under the General Indenture of Trust Dated November 1, 2005 as follows:

- $21.2 million Single Family Mortgage Program Class I Bonds, 2015 Series E (MBS Pass-through Program) (Federally Taxable) combined with funds in the trust estates were used to fully refund the Single Family Mortgage Program Bonds, 2006 Series A, 2006 Series B and 2006 Series C. The Authority realized a $0.9 million positive cash flow from this advance refunding and an economic gain of approximately $2.5 million.

- $62.8 million Single Family Mortgage Program Class I Bonds, 2016 Series A-1 (Tax-Exempt)(Non AMT) and 2016 Series A-2 (Tax-Exempt) (AMT). The $40 million 2016 Series A-1 bonds were used to originate new loans. The $22.8 million 2016 Series A-2 bonds combined with funds in the

Note 5 – Bonds Payable (continued)

trust estates, were used to fully refund the Single Family Mortgage Program Bonds 2006 Series D, 2006 Series E and 2006 Series F. The Authority will realize a $5.3 million positive cash flow from this advance refunding and an economic gain of approximately $4.9 million.

During fiscal year 2017, the Authority did not issue any bonds under the General Indenture of Trust dated December 1, 2009.

During fiscal year 2016, the Authority issued the following bond issue under the General Indenture of Trust dated December 1, 2009:

- $24.6 million Single Family Mortgage Program Class I Bonds, 2016 Series B (Federally Taxable) combined with funds in the trust estate were used to fully refund the Single Family Mortgage Program Bonds 2009 GSE Series A Bonds. The Authority recognized a $1.5 million positive cash flow from this current refunding and an economic gain of approximately $1.3 million.

Note 6 – Notes Payable

Notes payable at September 30, 2017 and 2016 consist of the following (in thousands):

	2017	2016
November 2011 Wells Fargo note bearing interest at 2.00% through November 2023	$ 850	$ 850
January 2012 USDA Preservation Revolving Loan Fund (PRLF) note bearing interest at 1.00% through January 2042.	1,861	1,930
December 2013 NM Small Business Investment Corporation Note bearing interest at 2.00% through November 2018.	800	900
July 2016 Federal Home Loan Bank of Dallas (FHLB) note bearing interest at 0.45% through October 2016. The loan is collateralized by securities.	-	10,000
September 2016 Federal Home Loan Bank of Dallas (FHLB) note bearing interest at 0.455% through November 2016. The loan is collateralized by securities.	-	6,900
August 2016 Federal Home Loan Bank of Dallas (FHLB) note bearing interest at 0.47% through November 2016. The loan is collateralized by securities.	-	6,000
September 2017 Federal Home Loan Bank Of Dallas (FHLB) note bearing interest at 1.17% through November 2017 loans are collateralized by securities	10,700	-
September 2017 Federal Home Loan Bank Of Dallas (FHLB) note bearing interest at 1.17% through December 2017 loans are collateralized by securities	15,000	-
	$ 29,211	$ 26,580

Note 6 – Notes Payable (continued)

The borrowings from Wells Fargo, USDA and NM SBIC were made to raise capital to help fund the Primero Loan Program that provides loans for nonprofit, public, or tribal agency sponsored affordable projects. The borrowings from FHLB were made to fund single family residential mortgages originated through the Authority's mortgage programs.

Note 7 – Debt Service Requirements

A summary of bond and note debt service requirements as of September 30, 2017 is as follows (in thousands):

	Bonds Payable		Notes Payable	
	Interest	Principal	Interest	Principal
Year(s) ending September 30:				
2018	$ 23,875	$ 14,254	$ 115	$ 25,774
2019	23,401	14,523	42	874
2020	22,889	26,887	34	74
2021	22,174	15,549	33	74
2022	21,583	16,045	32	393
2023–2027	97,716	88,698	76	902
2028–2032	77,597	98,963	48	372
2033–2037	55,372	139,643	30	372
2038–2042	26,275	138,565	11	376
2043–2047	3,492	83,105	-	-
2048–2052	18	440	-	-
	374,392	636,672	421	29,211
Net unaccreted premium	-	9,895	-	-
	$ 374,392	$ 646,567	$ 421	$ 29,211

Note 8 – Accounts Payable and Accrued Expenses

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

	2017	2016
Vendor	$ 4,665	$ 3,669
Employee benefits	458	373
Advances on revenue	991	691
	$ 6,114	$ 4,733

Note 9 – Noncurrent Liabilities and Compensated Absences

A summary of noncurrent liability and compensated absence activity for the years ended September 30, 2017 and 2016 is as follows (in thousands):

	October 1, 2016	Increases	Decreases	September 30, 2017	Current Portion
Bonds payable	$ 698,555	$ 112,546	$ (164,534)	$ 646,567	$ 14,254
Note payable	26,580	146,485	(143,854)	29,211	25,774
Accrued arbitrage rebate	51	-	(51)	-	-
Other noncurrent liabilities	245	-	-	245	-
Compensated absences	373	428	(387)	414	414
	$ 725,804	$ 259,459	$ (308,826)	$ 676,437	$ 40,442

	October 1, 2015	Increases	Decreases	September 30, 2016	Current Portion
Bonds payable	$ 737,956	$ 122,434	$ (161,835)	$ 698,555	$ 30,186
Note payable	4,012	33,688	(11,120)	26,580	22,974
Accrued arbitrage rebate	85	2	(36)	51	-
Other noncurrent liabilities	246	-	(1)	245	-
Compensated absences	358	433	(418)	373	373
	$ 742,657	$ 156,557	$ (173,410)	$ 725,804	$ 53,533

Note 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.

Note 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) plan, which covers substantially all of the Authority’s employees. Participating employees may make pre-tax salary deferrals of not less than 3% of the participating employee’s annual salary. If the employee makes the minimum 3% employee salary deferral, the Authority will make a matching contribution equal to 5% of the participating employee’s salary on a per payroll basis. 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 salary deferral. Plan participants become fully vested in the Authority’s contributions after five years of service. The Authority also sponsors a 457(b) plan. The Authority’s and employees’ contributions to the Benefit Plan were approximately $792,000 and $247,000, respectively, for the year ended September 30, 2017. The Authority’s and employees’ contributions to the Benefit Plan were approximately $638,000 and $232,000, respectively, for the year ended September 30, 2016. The Executive Director, Human Resources Manager, and Deputy Director of Finance and Administration have the authority to amend the plans.

Note 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, 2017 and 2016 (in thousands):

	2017	2016
Single family and multifamily programs as designated by the board	$ 20,751	$ 16,013
Future general operating budget	17,873	15,996
Housing Opportunity Fund	101,094	92,674
Risk-sharing loss exposure	9,864	10,999
Federal and state housing programs administered by the Authority	12,487	11,457
Total board-designated net position	$ 162,069	$ 147,139

Note 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, 2017 and 2016, the Authority is committed to assume a risk of approximately $10,390,000 and $11,820,000 for the 45 and 48 loans closed, respectively. These loans are considered in the Authority's assessment for the allowance for mortgage loan losses. As of September 30, 2017, of the 45 loans closed, 8 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 $10,390,000 risk assumed as of September 30, 2017, the Authority's assumed risk approximated $1,372,000 for these off balance sheet loans. The end dates for the guarantees range from 2027 – 2056. In situations where the 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% pro rata 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, 2017. As of September 30, 2017 and 2016, the Authority is committed to assume a risk of approximately $114,000 and $116,000 for the one loan closed, respectively.

Note 13 – Commitments and Contingencies (continued)

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 which 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, 2017, Management has determined that it is probable that MFA has incurred a contingent liability of $438,000 for the balance of the loans, which may be payable to HUD for non-compliance with the affordability requirement. The reserve for contingent liability is included in Net Position as of September 30, 2017.

On September 30, 2014, Management approved a reserve for contingent liability for Home for Women and Children for $19,000. Management has determined that it is probable that MFA has incurred a contingent liability under the 2012 Emergency Solutions Grant, which may be payable to HUD for unsupported expenditures. The reserve for contingent liability is included in Net Position as of September 30, 2017.

Note 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.

Note 15 – Joint Powers Agreements

The Authority has entered into three joint powers agreements (JPAs) with various departments of the State. At September 30, 2017, these JPAs 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 MOU with the New Mexico Attorney General in November 2012, and terminated June 30, 2017. 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 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.

Note 15 – Joint Powers Agreements (continued)

(c) The Authority entered into a JPA with DFA in August 2016. 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, 2016, and terminated June 30, 2017. The estimated amount of the project is $191,400, all of which is applicable to the Authority. The funds are subject to reversion to the State general fund. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

Note 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 2017 and 2016, the Authority incurred $1,250 and $850, 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, 2017 and September 30, 2016, there were no balances due to/from the Trust.

Note 17 – Escrow Deposits and Development Reserves

The escrow deposits represent balances of receipts from single family program homeowners and multifamily program developers for anticipated payments of real estate taxes, property insurance and mortgage insurance. Development reserves represent operating reserves for repairs and replacement, property improvements, supportive services and potential operating deficits experienced by rental housing program developments. The accounts are individually insured.

Note 18 – Subsequent Event

On November 16, 2017, the Authority issued $45,000,000 (2017 Series B-1) and $12,250,000 (2017 Series B-2) of Single Family Mortgage Program Class I Bonds under the 2005 General Indenture. The 2017 Series B-1 Bonds will be used to fund certain qualifying mortgage loans under the Single Family Mortgage Program. A portion of the 2017 Series B-1 Bonds was sold at a premium generating $1,004,000 which will be used to fund bond expenses. The 2017 Series B-2 Bonds along with a premium generated on a portion of the 2017 Series B-2 bonds in the amounts of $887,000 and existing program funds will be used to refund Single Family Mortgage Program Class I Bonds 2008 Series A and 2008 Series B. The 2008 Series A and 2008 Series B bonds were issued under the 2005 General Indenture and will be redeemed on January 2, 2018.

Supplementary Schedules

September 30, 2017
(In Thousands)

	Single Family Mortgage Programs		
Assets	2005 General Indenture	2009 General Indenture	Total Single Family Mortgage Programs
Current assets:			
Restricted cash and cash equivalents	$ 10,035	$ 2,460	$ 12,495
Restricted investments, net	-	-	-
Accrued interest receivable	1,614	356	1,970
Other current assets	-	-	-
Intra-entity receivable (payable)	(289)	(25)	(314)
Total current assets	11,360	2,791	14,151
Noncurrent assets:			
Restricted cash and cash equivalents	5,281	421	5,702
Restricted investments and reserve funds, net	-	-	-
Restricted securitized mortgage loans, net:			
Securitized mortgage loans, net cost	455,909	102,196	558,105
Unrealized gain on securitized mortgage loans	17,181	5,250	22,431
Total restricted securitized mortgage loans, net	473,090	107,446	580,536
Restricted mortgage loans, net	-	-	-
Total noncurrent assets	478,371	107,867	586,238
Total assets	489,731	110,658	600,389
Deferred outflows:			
Refundings of debt	625	-	625
Total assets & deferred outflows	$ 490,356	$ 110,658	$ 601,014
Liabilities and Net Position			
Current liabilities:			
Accrued interest payable	$ 1,571	$ 288	$ 1,859
Accounts payable and other accrued expenses	5	3	8
Current portion of bonds payable	10,035	2,460	12,495
Total current liabilities	11,611	2,751	14,362
Noncurrent liabilities:			
Bonds payable	430,637	100,074	530,711
Accrued arbitrage rebate	-	-	-
Total noncurrent liabilities	430,637	100,074	530,711
Total liabilities	442,248	102,825	545,073
Net position restricted for debt service	48,108	7,833	55,941
Total liabilities and net position	$ 490,356	$ 110,658	$ 601,014

September 30, 2017
(In Thousands)

	2005 General Indenture	2009 General Indenture	Total Single Family Mortgage Programs
Operating revenues:			
Interest on mortgage loans and securitized mortgage loans	$ 18,666	$ 4,238	$ 22,904
Interest on securities and temporary investments	421	23	444
Gain (loss) asset sale	765	-	765
Loan and commitment fees	500	-	500
Administrative fees and other	(2,455)	(371)	(2,826)
Total operating revenues	17,897	3,890	21,787
Operating expenses:			
Interest	15,662	3,367	19,029
Bond issuance costs	971	22	993
Administrative fees and other	100	17	117
Total operating expenses	16,733	3,406	20,139
Operating income (loss)	1,164	484	1,648
Net decrease in fair value of investments	(13,876)	(3,901)	(17,777)
Other financing sources (uses) – operating transfers	(5,213)	(418)	(5,631)
Change in net position	(17,925)	(3,835)	(21,760)
Total net position – beginning	66,034	11,668	77,702
Total net position – ending	$ 48,109	$ 7,833	$ 55,942
Condensed Statements of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 27,257	$ 21,438	$ 48,695
Noncapital financing activities	(34,023)	(22,736)	(56,759)
Investing activities	1,168	22	1,190
Net (decrease) increase	(5,598)	(1,276)	(6,874)
Cash and cash equivalents, beginning of year	20,915	4,157	25,072
Cash and cash equivalents, end of year	$ 15,317	$ 2,881	$ 18,198

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Net Position-
September 30, 2017

September 30, 2017
(In Thousands)

	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
Current assets:					
Restricted cash and cash equivalents	$ 220	$ 195	$ 185	$ 235	$ -
Accrued interest receivable	42	35	32	48	-
Other current assets	-	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-	-
Total current assets	262	230	217	283	-
Noncurrent assets:					
Restricted cash and cash equivalents	358	98	286	322	-
Note receivable	-	112	-	-	-
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	7,640	7,483	7,277	10,193	-
Total noncurrent assets	7,998	7,693	7,563	10,515	-
Total assets	8,260	7,923	7,780	10,798	-
Deferred outflows:					
Refundings of debt	-	-	-	-	-
Total assets and deferred outflows	$ 8,260	$ 7,923	$ 7,780	$ 10,798	$ -
Liabilities and Net Position					
Current liabilities:					
Accrued interest payable	$ 117	$ 33	$ 32	$ 48	$ -
Accounts payable and other accrued expenses	1	-	-	-	-
Current portion of bonds payable, net	220	195	185	235	-
Total current liabilities	338	228	217	283	-
Noncurrent liabilities:					
Bonds payable, net	8,051	7,560	7,355	10,425	-
Accrued arbitrage rebate	-	-	-	-	-
Total noncurrent liabilities	8,051	7,560	7,355	10,425	-
Total liabilities	8,389	7,788	7,572	10,708	-
Net position restricted for debt service	(129)	135	208	90	-
Total liabilities and net position	$ 8,260	$ 7,923	$ 7,780	$ 10,798	$ -

September 30, 2017
(In Thousands)

	Rental Housing Mortgage Programs				
Assets	2005 Series A, B	2005 Series C, D	2005 Series E,F	2007 Series A,B	2007 Series C,D
Current assets:					
Restricted cash and cash equivalents	$ 230	$ 80	$ 255	$ 100	$ 10
Accrued interest receivable	44	14	46	23	156
Other current assets	-	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-	(6)
Total current assets	274	94	301	123	160
Noncurrent assets:					
Restricted cash and cash equivalents	514	70	268	151	-
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	9,489	3,392	10,802	5,069	12,862
Total noncurrent assets	10,003	3,462	11,070	5,220	12,862
Total assets	10,277	3,556	11,371	5,343	13,022
Deferred outflows:					
Refundings of debt	-	-	-	-	-
Total assets and deferred outflows	$ 10,277	$ 3,556	$ 11,371	$ 5,343	$ 13,022
Liabilities and Net Position					
Current liabilities:					
Accrued interest payable	$ 42	$ 14	$ 46	$ 23	$ 153
Accounts payable and other accrued expenses	-	-	-	-	1
Current portion of bonds payable, net	230	80	255	100	180
Total current liabilities	272	94	301	123	334
Noncurrent liabilities:					
Bonds payable, net	9,960	3,458	10,999	5,180	12,682
Accrued arbitrage rebate	-	-	-	-	-
Total noncurrent liabilities	9,960	3,458	10,999	5,180	12,682
Total liabilities	10,232	3,552	11,300	5,303	13,016
Net position restricted for debt service	45	4	71	40	6
Total liabilities and net position	$ 10,277	$ 3,556	$ 11,371	$ 5,343	$ 13,022

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Net Position-
September 30, 2017

September 30, 2017
(In Thousands)

	Rental Housing Mortgage Programs				
Assets	2008 Series A,B	2010 Series A,B	2012 Series A	2014 SF Living	2016 Series A
Current assets:					
Restricted cash and cash equivalents	$ -	$ 15	$ 1	$ -	$ -
Accrued interest receivable	6	4	11	-	-
Other current assets	-	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-	-
Total current assets	6	19	12	-	-
Noncurrent assets:					
Restricted cash and cash equivalents	-	41	-	-	-
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	8,520	837	4,806	-	-
Total noncurrent assets	8,520	878	4,806	-	-
Total assets	8,526	897	4,818	-	-
Deferred outflows:					
Refundings of debt	-	-	-	-	-
Total assets and deferred outflows	$ 8,526	$ 897	$ 4,818	$ -	$ -
Liabilities and Net Position					
Current liabilities:					
Accrued interest payable	$ 6	$ 4	$ 11	$ -	$ -
Accounts payable and other accrued expenses	-	-	-	-	-
Current portion of bonds payable, net	-	15	64	-	-
Total current liabilities	6	19	75	-	-
Noncurrent liabilities:					
Bonds payable, net	8,520	819	4,743	-	-
Accrued arbitrage rebate	-	-	-	-	-
Total noncurrent liabilities	8,520	819	4,743	-	-
Total liabilities	8,526	838	4,818	-	-
Net position restricted for debt service	-	59	-	-	-
Total liabilities and net position	$ 8,526	$ 897	$ 4,818	$ -	$ -

September 30, 2017
(In Thousands)

	Rental Housing Mortgage Programs		
Assets	2017 Shiprock	2017 Series B	Total Rental Housing Mortgage Programs
Current assets:			
Restricted cash and cash equivalents	$ -	$ -	$ 1,526
Accrued interest receivable	49	-	510
Other current assets	-	-	-
Intra-entity receivable (payable)	-	-	(6)
Total current assets	49	-	2,030
Noncurrent assets:			
Restricted cash and cash equivalents	-	-	2,108
Note receivable	-	-	112
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	11,800	50	100,220
Total noncurrent assets	11,800	50	102,440
Total assets	11,849	50	104,470
Deferred outflows:			
Refundings of debt	-	-	-
Total assets and deferred outflows	$ 11,849	$ 50	$ 104,470
Liabilities and Net Position			
Current liabilities:			
Accrued interest payable	$ 48	$ -	$ 577
Accounts payable and other accrued expenses	-	-	2
Current portion of bonds payable, net	-	-	1,759
Total current liabilities	48	-	2,338
Noncurrent liabilities:			
Bonds payable, net	11,800	50	101,602
Accrued arbitrage rebate	-	-	-
Total noncurrent liabilities	11,800	50	101,602
Total liabilities	11,848	50	103,940
Net position restricted for debt service	1	-	530
Total liabilities and net position	$ 11,849	$ 50	$ 104,470

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Revenues, Expenses, and Changes in Net Position-September 30, 2017

September 30, 2017
(In Thousands)

	Rental Housing Mortgage Programs				
	2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D	2004 Series F, G
Operating revenues:					
Interest on mortgage loans and securitized mortgage loans	$ 473	$ 400	$ 380	$ 559	$ 186
Interest on securities and temporary investments	17	2	20	27	4
Loan and commitment fees	-	-	-	-	-
Administrative fees and other	-	-	-	-	-
Total operating revenues	490	402	400	586	190
Operating expenses:					
Interest expense	464	404	392	581	123
Bond issuance costs	-	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-	-
Administrative fees and other	(23)	(225)	2	(44)	217
Total operating expenses	441	179	394	537	340
Operating income (loss)	49	223	6	49	(150)
Net increase (decrease) in fair value of investments	-	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-	-
Change in net position	49	223	6	49	(150)
Total net position – beginning (as restated)	(178)	(88)	202	41	150
Total net position – ending	$ (129)	$ 135	$ 208	$ 90	$ -
Condensed Statements of Cash Flows					
Net cash provided by (used in):					
Operating activities	$ 666	$ 583	$ 550	$ 784	$ 9,376
Noncapital financing activities	(685)	(591)	(563)	(807)	(9,886)
Investing activities	18	(110)	20	27	5
Net (decrease) increase	(1)	(118)	7	4	(505)
Cash and cash equivalents, beginning of year	579	411	464	553	505
Cash and cash equivalents, end of year	$ 578	$ 293	$ 471	$ 557	$ -

September 30, 2017
(In Thousands)

	Rental Housing Mortgage Programs				
	2005 Series A, B	2005 Series C, D	2005 Series E, F	2007 Series A, B	2007 Series C, D
Operating revenues:					
Interest on mortgage loans and securitized mortgage loans	$ 513	$ 166	$ 542	$ 275	$ 843
Interest on securities and temporary investments	30	-	18	-	1
Loan and commitment fees	-	-	-	-	-
Administrative fees and other	-	3	-	-	1
Total operating revenues	543	169	560	275	845
Operating expenses:					
Interest expense	511	167	549	275	840
Bond issuance costs	-	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-	-
Administrative fees and other	314	(161)	(142)	2	1
Total operating expenses	825	6	407	277	841
Operating income (loss)	(282)	163	153	(2)	4
Net increase (decrease) in fair value of investments	-	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-	-
Change in net position	(282)	163	153	(2)	4
Total net position – beginning (as restated)	327	(159)	(82)	42	2
Total net position – ending	$ 45	$ 4	$ 71	$ 40	$ 6
Condensed Statements of Cash Flows					
Net cash provided by (used in):					
Operating activities	$ 726	$ 244	$ 778	$ 363	$ 1,011
Noncapital financing activities	(727)	(248)	(792)	(366)	(1,011)
Investing activities	29	-	17	-	1
Net (decrease) increase	28	(4)	3	(3)	1
Cash and cash equivalents, beginning of year	716	154	520	254	9
Cash and cash equivalents, end of year	$ 744	$ 150	$ 523	$ 251	$ 10

September 30, 2017
(In Thousands)

	Rental Housing Mortgage Programs				
	2008 Series A, B	2010 Series A, B	2012 Series A	2014 SF Living	2016 Series A
Operating revenues:					
Interest on mortgage loans and securitized mortgage loans	$ 66	$ 45	$ 245	$ 205	$ 233
Interest on securities and temporary investments	-	-	-	-	-
Loan and commitment fees	-	-	-	-	-
Administrative fees and other	-	-	-	-	-
Total operating revenues	66	45	245	205	233
Operating expenses:					
Interest expense	66	44	245	205	233
Bond issuance costs	-	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-	-
Administrative fees and other	-	-	-	-	-
Total operating expenses	66	44	245	205	233
Operating income (loss)	-	1	-	-	-
Net increase (decrease) in fair value of investments	-	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-	-
Change in net position	-	1	-	-	-
Total net position – beginning	-	58	-	-	-
Total net position – ending	$ -	$ 59	$ -	$ -	$ -
Condensed Statements of Cash Flows					
Net cash provided by (used in):					
Operating activities	$ 65	$ 55	$ 306	$ 11,680	$ 4,992
Noncapital financing activities	(65)	(52)	(306)	(11,680)	(5,009)
Investing activities	-	-	-	-	-
Net (decrease) increase	-	3	-	-	(17)
Cash and cash equivalents, beginning of year	-	53	1	-	17
Cash and cash equivalents, end of year	$ -	$ 56	$ 1	$ -	$ -

September 30, 2017
(In Thousands)

	Rental Housing Mortgage Programs		
	2017 Shiprock	2017 Series B	Total Rental Housing Mortgage Programs
Operating revenues:			
Interest on mortgage loans and securitized mortgage loans	$ 49	$ -	$ 5,180
Interest on securities and temporary investments	-	-	119
Loan and commitment fees	-	-	-
Administrative fees and other	-	-	4
Total operating revenues	49	-	5,303
Operating expenses:			
Interest expense	48	-	5,147
Bond issuance costs	-	-	-
Provision (recovery) for loan losses	-	-	-
Administrative fees and other	-	-	(59)
Total operating expenses	48	-	5,088
Operating income (loss)	1	-	215
Net increase (decrease) in fair value of investments	-	-	-
Other financing sources (uses) – operating transfers	-	-	-
Change in net position	1	-	215
Total net position – beginning	-	-	315
Total net position – ending	$ 1	$ -	$ 530
Condensed Statements of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ (11,800)	$ (50)	$ 20,329
Noncapital financing activities	11,800	50	(20,938)
Investing activities	-	-	7
Net (decrease) increase	-	-	(602)
Cash and cash equivalents, beginning of year	-	-	4,236
Cash and cash equivalents, end of year	$ -	$ -	$ 3,634

September 30, 2016
(In Thousands)

	Single Family Mortgage Programs		
Assets	2005 General Indenture	2009 General Indenture	Total Single Family Mortgage Programs
Current assets:			
Restricted cash and cash equivalents	$ 9,440	$ 2,685	$ 12,125
Restricted investments, net	-	-	-
Accrued interest receivable	1,797	418	2,215
Other current assets	-	-	-
Intra-entity receivable (payable)	(281)	(30)	(311)
Total current assets	10,956	3,073	14,029
Noncurrent assets:			
Restricted cash and cash equivalents	11,475	1,472	12,947
Restricted investments and reserve funds, net	-	-	-
Restricted securitized mortgage loans, net:			
Securitized mortgage loans, net cost	471,620	120,147	591,767
Unrealized gain on securitized mortgage loans	31,058	9,151	40,209
Total restricted securitized mortgage loans, net	502,678	129,298	631,976
Restricted mortgage loans, net	-	-	-
Total noncurrent assets	514,153	130,770	644,923
Total assets	525,109	133,843	658,952
Deferred outflows:			
Refundings of debt	880	-	880
Total assets & deferred outflows	$ 525,989	$ 133,843	$ 659,832
Liabilities and Net Position			
Current liabilities:			
Accrued interest payable	$ 2,263	$ 345	$ 2,608
Accounts payable and other accrued expenses	13	6	19
Current portion of bonds payable	9,440	2,685	12,125
Total current liabilities	11,716	3,036	14,752
Noncurrent liabilities:			
Bonds payable	448,188	119,139	567,327
Accrued arbitrage rebate	51	-	51
Total noncurrent liabilities	448,239	119,139	567,378
Total liabilities	459,955	122,175	582,130
Net position restricted for debt service	66,034	11,668	77,702
Total liabilities and net position	$ 525,989	$ 133,843	$ 659,832

September 30, 2016
(In Thousands)

	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	$ 20,134	$ 4,967	$ 25,101
Interest on securities and temporary investments	429	13	442
Gain (loss) asset sale	65	-	65
Loan and commitment fees	399	-	399
Administrative fees and other	(2,294)	(356)	(2,650)
Total operating revenues	18,733	4,624	23,357
Operating expenses:			
Interest	17,401	4,115	21,516
Bond issuance costs	886	268	1,154
Administrative fees and other	82	23	105
Total operating expenses	18,369	4,406	22,775
Operating income (loss)	364	218	582
Net increase (decrease) in fair value of investments	(2,655)	573	(2,082)
Other financing sources (uses) – operating transfers	(198)	(171)	(369)
Change in net position	(2,489)	620	(1,869)
Total net position – beginning (as restated)	68,523	11,048	79,571
Total net position – ending	$ 66,034	$ 11,668	$ 77,702
Condensed Statements of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 49,668	$ 22,628	$ 72,296
Noncapital financing activities	(52,353)	(22,292)	(74,645)
Investing activities	469	13	482
Net increase (decrease)	(2,216)	349	(1,867)
Cash and cash equivalents, beginning of year	23,131	3,808	26,939
Cash and cash equivalents, end of year	$ 20,915	$ 4,157	$ 25,072

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Net Position-
September 30, 2016

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
Assets	2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D
Current assets:				
Restricted cash and cash equivalents	$ 205	$ 185	$ 170	$ 225
Accrued interest receivable	44	35	33	49
Other current assets	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-
Total current assets	249	220	203	274
Noncurrent assets:				
Restricted cash and cash equivalents	374	226	294	328
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	7,809	7,440	7,448	10,373
Total noncurrent assets	8,183	7,666	7,742	10,701
Total assets	8,432	7,886	7,945	10,975
Deferred outflows:				
Refundings of debt	-	-	-	-
Total assets and deferred outflows	$ 8,432	$ 7,886	$ 7,945	$ 10,975
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$ 121	$ 34	$ 33	$ 49
Accounts payable and other accrued expenses		-	-	-
Current portion of bonds payable, net	205	185	170	225
Total current liabilities	326	219	203	274
Noncurrent liabilities:				
Bonds payable, net	8,284	7,755	7,540	10,660
Accrued arbitrage rebate	-	-	-	-
Total noncurrent liabilities	8,284	7,755	7,540	10,660
Total liabilities	8,610	7,974	7,743	10,934
Net position restricted for debt service	(178)	(88)	202	41
Total liabilities and net position	$ 8,432	$ 7,886	$ 7,945	$ 10,975

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
Assets	2004 Series F, G	2005 Series A, B	2005 Series C, D	2005 Series E, F
Current assets:				
Restricted cash and cash equivalents	$ 205	$ 215	$ 80	$ 240
Accrued interest receivable	42	45	14	47
Other current assets	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-
Total current assets	247	260	94	287
Noncurrent assets:				
Restricted cash and cash equivalents	300	501	74	280
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	9,365	10,014	3,306	10,894
Total noncurrent assets	9,665	10,515	3,380	11,174
Total assets	9,912	10,775	3,474	11,461
Deferred outflows:				
Refundings of debt	-	-	-	-
Total assets and deferred outflows	$ 9,912	$ 10,775	$ 3,474	$ 11,461
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$ 42	$ 43	$ 14	$ 47
Accounts payable and other accrued expenses	-	-	-	-
Current portion of bonds payable, net	205	215	80	240
Total current liabilities	247	258	94	287
Noncurrent liabilities:				
Bonds payable, net	9,515	10,190	3,539	11,256
Accrued arbitrage rebate	-	-	-	-
Total noncurrent liabilities	9,515	10,190	3,539	11,256
Total liabilities	9,762	10,448	3,633	11,543
Net position restricted for debt service	150	327	(159)	(82)
Total liabilities and net position	$ 9,912	$ 10,775	$ 3,474	$ 11,461

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Net Position-
September 30, 2016

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
Assets	2007 Series A, B	2007 Series C, D	2008 Series A, B	2010 Series A, B
Current assets:				
Restricted cash and cash equivalents	$ 90	$ 9	$ -	$ 10
Accrued interest receivable	23	154	5	4
Other current assets	-	-	-	-
Intra-entity receivable (payable)	-	(7)	-	-
Total current assets	113	156	5	14
Noncurrent assets:				
Restricted cash and cash equivalents	164	-	-	43
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	5,159	13,032	8,520	848
Total noncurrent assets	5,323	13,032	8,520	891
Total assets	5,436	13,188	8,525	905
Deferred outflows:				
Refundings of debt	-	-	-	-
Total assets and deferred outflows	$ 5,436	$ 13,188	$ 8,525	$ 905
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$ 23	$ 154	$ 5	$ 4
Accounts payable and other accrued expenses	-	-	-	-
Current portion of bonds payable, net	90	170	-	10
Total current liabilities	113	324	5	14
Noncurrent liabilities:				
Bonds payable, net	5,281	12,862	8,520	833
Accrued arbitrage rebate	-	-	-	-
Total noncurrent liabilities	5,281	12,862	8,520	833
Total liabilities	5,394	13,186	8,525	847
Net position restricted for debt service	42	2	-	58
Total liabilities and net position	$ 5,436	$ 13,188	$ 8,525	$ 905

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Revenues, Expenses, and Changes in Net Position-September 30, 2016

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
Assets	2012 Series A	2014 SF Living	2016 SF Living	Total Rental Housing Mortgage Programs
Current assets:				
Restricted cash and cash equivalents	$ 1	$ -	$ 17	$ 1,652
Accrued interest receivable	11	30	16	552
Other current assets	-	-	-	-
Intra-entity receivable (payable)	-	-	-	(7)
Total current assets	12	30	33	2,197
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	-	2,584
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	4,867	11,446	4,760	115,281
Total noncurrent assets	4,867	11,446	4,760	117,865
Total assets	4,879	11,476	4,793	120,062
Deferred outflows:				
Refundings of debt	-	-	-	-
Total assets and deferred outflows	$ 4,879	$ 11,476	$ 4,793	$ 120,062
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$ 10	$ 30	$ 15	$ 624
Accounts payable and other accrued expenses	2	-	18	20
Current portion of bonds payable, net	61	11,446	4,760	18,062
Total current liabilities	73	11,476	4,793	18,706
Noncurrent liabilities:				
Bonds payable, net	4,806	-	-	101,041
Accrued arbitrage rebate	-	-	-	-
Total noncurrent liabilities	4,806	-	-	101,041
Total liabilities	4,879	11,476	4,793	119,747
Net position restricted for debt service	-	-	-	315
Total liabilities and net position	$ 4,879	$ 11,476	$ 4,793	$ 120,062

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Revenues, Expenses, and Changes in Net Position-September 30, 2016

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
	2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$ 483	$ 411	$ 388	$ 572
Interest on securities and temporary investments	18	15	20	27
Loan and commitment fees	-	-	-	-
Administrative fees and other	-	-	-	-
Total operating revenues	501	426	408	599
Operating expenses:				
Interest expense	476	414	401	594
Bond issuance costs	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-
Administrative fees and other	(17)	(15)	2	(18)
Total operating expenses	459	399	403	576
Operating income (loss)	42	27	5	23
Net increase (decrease) in fair value of investments	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-
Change in net position	42	27	5	23
Total net position – beginning (as restated)	(220)	(115)	197	18
Total net position – ending	$ (178)	$ (88)	$ 202	$ 41
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$ 665	$ 582	$ 549	$ 783
Noncapital financing activities	(683)	(594)	(566)	(805)
Investing activities	18	15	20	27
Net increase (decrease)	-	3	3	5
Cash and cash equivalents, beginning of year	579	408	461	548
Cash and cash equivalents, end of year	$ 579	$ 411	$ 464	$ 553

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
	2004 Series F, G	2005 Series A, B	2005 Series C, D	2005 Series E, F
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$ 500	$ 524	$ 170	$ 554
Interest on securities and temporary investments	17	29	-	17
Loan and commitment fees	-	-	-	-
Administrative fees and other	-	-	-	-
Total operating revenues	517	553	170	571
Operating expenses:				
Interest expense	510	521	171	561
Bond issuance costs	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-
Administrative fees and other	2	(356)	97	(19)
Total operating expenses	512	165	268	542
Operating income (loss)	5	388	(98)	29
Net increase (decrease) in fair value of investments	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-
Change in net position	5	388	(98)	29
Total net position – beginning	145	(61)	(61)	(111)
Total net position – ending	$ 150	$ 327	$ (159)	$ (82)
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$ 688	$ 725	$ 241	$ 779
Noncapital financing activities	(700)	(726)	(247)	(791)
Investing activities	17	28	-	18
Net increase (decrease)	5	27	(6)	6
Cash and cash equivalents, beginning of year	500	689	160	514
Cash and cash equivalents, end of year	$ 505	$ 716	$ 154	$ 520

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Rental Housing Mortgage Programs-Statement of Revenues, Expenses, and Changes in Net Position-September 30, 2016

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
	2007 Series A, B	2007 Series C, D	2008 Series A, B	2010 Series A, B
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$ 280	$ 850	$ 25	$ 45
Interest on securities and temporary investments	-	-	-	-
Loan and commitment fees	-	-	-	-
Administrative fees and other	-	1	-	-
Total operating revenues	280	851	25	45
Operating expenses:				
Interest expense	280	850	25	44
Bond issuance costs	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-
Administrative fees and other	2	1	-	-
Total operating expenses	282	851	25	44
Operating income (loss)	(2)	-	-	1
Net increase (decrease) in fair value of investments	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-
Change in net position	(2)	-	-	1
Total net position – beginning	44	2	-	57
Total net position – ending	$ 42	$ 2	$ -	$ 58
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$ 364	$ 1,011	$ 20	$ 55
Noncapital financing activities	(372)	(1,011)	(20)	(53)
Investing activities	-	-	-	-
Net increase (decrease)	(8)	-	-	2
Cash and cash equivalents, beginning of year	262	9	-	51
Cash and cash equivalents, end of year	$ 254	$ 9	$ -	$ 53

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
	2012 Series A	2014 SF Living	2016 Series A	Total Rental Housing Mortgage Programs
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$ 249	$ 243	$ 47	$ 5,341
Interest on securities and temporary investments	-	-	-	143
Loan and commitment fees	-	-	-	-
Administrative fees and other	-	-	-	1
Total operating revenues	249	243	47	5,485
Operating expenses:				
Interest expense	249	243	47	5,386
Bond issuance costs	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-
Administrative fees and other	-	-	-	(321)
Total operating expenses	249	243	47	5,065
Operating income (loss)	-	-	-	420
Net increase (decrease) in fair value of investments	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-
Change in net position	-	-	-	420
Total net position – beginning	-	-	-	(105)
Total net position – ending	$ -	$ -	$ -	$ 315
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$ 306	$ (8,711)	$ (4,712)	$ (6,655)
Noncapital financing activities	(306)	8,711	4,729	6,566
Investing activities	-	-	-	143
Net increase (decrease)	-	-	17	54
Cash and cash equivalents, beginning of year	-	-	-	4,182
Cash and cash equivalents, end of year	$ -	$ -	$ 17	$ 4,236

Single Audit Information

This page intentionally left blank.

New Mexico Mortgage Finance Authority
(A Component Unit of the State of New Mexico)
Schedule of Expenditures of Federal Awards
September 30, 2017

Federal Grantor/ Program Title	CFDA Number	Pass-through Entity Identifying Number	Subrecipient Expenditures	Total Federal Expenditures	Loans or Loan Guarantees	Total
U.S. Department of Housing and Urban Development:						
Section 8 Project-Based Cluster	14.195	NM800CC001	$ 29,965,021	$ 31,115,854	$ -	$ 31,115,854
Section 811	14.326	NM21RDD1301	-	23,820	-	23,820
Emergency Solutions Grants Program	14.231	E17-DC-35-0001	1,042,653	1,120,138	-	1,120,138
HOME Investment Partnerships Program	14.239	M-17-SG-35-0100	2,837,736	4,192,779	35,151,297	39,344,076
Housing Opportunities for People with AIDS	14.241	NMH17F-999	692,424	715,356	-	715,356
ARRA-Tax Credit Assistance Program	14.258	M-09-ES-35-0100	-	-	13,264,646	13,264,646
Housing Trust Fund	14.275	F17-SG350100	-	2,868	-	2,868
Neighborhood Stabilization Program						
pass-through State DFA (a Community Development Block/Grant Neighborhood Stabilization Program)	14.228	09-NSP-2-J-01	-	435	2,921,596	2,922,031
Total U.S. Department of Housing and Urban Development			34,537,834	37,171,250	51,337,539	88,508,789
US Department of Energy:						
Weatherization Assistance for Low-Income Persons	81.042	EE0007937	1,724,635	1,845,434	-	1,845,434
US Department of Health & Human Services pass-through from the NM Department of Human Services:						
Low Income Home Energy Assistance Program	93.568	18-630-9000-0006	1,601,035	1,689,660	-	1,689,660
Total Federal grants			37,863,504	40,706,344	51,337,539	92,043,883
Loan Guaranty Programs						
U.S. Department of Housing and Urban Development:						
Mortgage Insurance - Homes (FHA)	14.117	n/a	-	-	1,529,076	1,529,076
U.S. Department of Veterans Affairs:						
Veterans Housing-Guaranteed and Insured Loans	64.114	n/a	-	-	91,837	91,837
U.S. Department of Agriculture:						
Very Low to Moderate Income Housing Loans	10.410	n/a	-	-	109,683	109,683
Section 538 Rural Rental Housing Guaranteed Loans	10.438	n/a	-	-	1,026,453	1,026,453
U.S. Department of Housing and Urban Development:						
Housing Finance Agencies Risk Sharing Programs	14.188	n/a	-	1,291,816	78,845,282	80,137,098
Total loan guaranty programs			-	1,291,816	81,602,331	82,894,147
Total schedule of expenditures for federal awards			$ 37,863,504	$ 41,998,160	$ 132,939,870	$ 174,938,030

See accompanying notes to schedule of expenditures of federal awards.

Note 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. Such expenditures are recognized following the cost principles contained in OMB Circular 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. The Authority's reporting entity is defined in Note 1 to the Authority's financial statements. All federal financial assistance received form the 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 OMB Circular 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 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, 2017 or federally insured loans as described in Note 3.

Note 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, 2017, the Authority recorded approximately $1,529,000 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 45 loans. HUD's assumed risk approximated $92,487,000 at September 30, 2017. Of the 45 loans closed, the Authority funded 37 loans with outstanding principal of $89,041,000 at September 30, 2017. HUD's assumed risk of loss of approximately $78,845,000 related to these 37 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, 2017, the loan had an outstanding principal of $1,141,000, of which the USDA assumed risk of loss of approximately $1,026,000 recorded in the accompanying Schedule.

Note 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.

Note 5 – Indirect Cost

The Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Report of Independent Auditors 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
Timothy Keller
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 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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 30, 2017.

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 opinions 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-001.

The Authority's Response to Findings

The Authority's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
November 30, 2017

MOSSADAMS

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Authority Members
New Mexico Mortgage Finance Authority
and
Timothy Keller
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited 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 Compliance Supplement that could have a direct and material effect on each of the its major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings 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.

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 the Uniform Guidance, 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 a 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 have not been 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 2017-002 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance findings 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
November 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☐ Yes	☒ None reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☒ Yes	☐ None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☒ Yes	☐ No

Identification of Major Federal Programs

CFDA Numbers	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
14.195	Section 8 Contract Administration	Unmodified
14.258	ARRA-Tax Credit Assistance Program	Unmodified

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

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II – Financial Statement Findings

FINDING 2017-001 (2016-001)– Risk Sharing Reporting
Noncompliance

Criteria or specific requirement:

The agreement between HUD and the New Mexico Mortgage Finance Authority (the Authority) states, "The HFA shall perform annual physical inspections of all projects insured hereunder and shall submit a copy of the inspection report to the Commissioner (i.e., showing and certifying that the Project is in safe and sanitary condition). If a Project is not in safe and sanitary condition, the HFA will provide the Commissioner with a summary of required actions, with target dates, to correct unresolved findings."

Also, the approved Risk Sharing Manual Rev, September 2013 states, "Each physical inspection will be documented in writing with detailed deficiency explanations, recommended or required actions and time frames and conclusions. The report must be signed and dated, and must specify the expected actions. The report should be completed within 30 days of the completion of the field work."

In accordance with Section 12-6-5 NMSA 1978 any violation of instances of noncompliance shall be reported.

Condition:

For one of the three inspection reports tested, we noted that the Authority did not submit the inspection report to HUD within 30 days of the completion of the field work. Management made progress towards implementing new policy and procedures as stated in last year's corrective action plan; however, reports were not submitted timely.

Effect:

The Authority was not in compliance with HUD requirements. The Authority did not ensure all reports were submitted within 30 days of the completion of the field work.

Cause:

There is no formal process in place to ensure that inspection reports are properly put in the tracking data base to ensure that reports are submitted within 30 days.

Recommendation:

Management should establish policies and procedures to ensure all inspection reports are submitted within 30 days, and should retain documentation of timely submission.

Views of responsible officials and planned corrective actions:

Management agrees. The tracking database will be updated upon scheduling of the monitoring, rather than after the monitoring is completed. Automated reminders will be sent to the Housing Program Analyst conducting the monitoring, the Assistant Director of Asset Management, and the Director of Asset Management prior to the due date notifying them of the deadline for issuing the report. The database will be updated with these changes by 12/31/2017. Responsible Party: Deputy Director of Programs.

Section III – Federal Award Findings and Questioned Costs

2017-002 Section 8 Contract Administration - Management and Occupancy Review Significant Deficiency in Internal Control and non-compliance

Federal Agency*:* U.S. Department of Housing and Urban Development
Program Name: Section 8 Contract Administration
CFDA No. and Program Expenditures: 14.195 ($31,115,854)
Grant Numbers: NM800CC001
Fiscal Program Award Year Ended: 2017
Questioned Costs: None
Responsible Division: Section 8 Contract Administration Personnel – Department of Asset Management

Criteria or specific requirement:
Per the HUD approved work plan, owner's responses to Management and Occupancy Reviews (MORS) must be reviewed by MFA within 10 days from the time they received the owner's responses in order to address the findings and to notify the owners whether the findings have been cleared.

Condition:
For three of nine Management and Occupancy Reviews (MORS) reviewed, we noted that owners' responses to findings were received; however, they were not reviewed by MFA within 10 days per policy stated in the approved HUD work plan.

Effect:
Three properties could potentially have been misclassified by HUD as high risk due to MFA not updating iREMS website timely.

Cause:
The Authority did not have proper controls in place to ensure the owners' responses to findings were reviewed within ten days.

Recommendation:
Management should update their policies and procedures to ensure that the owner's responses to Managements and Occupancy Reviews (MORS) are properly followed up with within ten days per the HUD approved work plan or HUD Section 8 Contract Administration Initiative chapter 6-8 which requires owner's responses to be followed up on within 30 days.

Views of responsible officials and planned corrective actions:
Management agrees. The work plan will be updated to require follow-up within 30 days. In addition, a general department email account will be created for owners to send all MOR responses, which can then be monitored by all staff in the department to take action. Also automated reminders and/or reports will be added to the database to ensure timely follow-up. These changes will be implemented by 2/1/2018. Responsible Party: Deputy Director of Programs.

FINDING 2016-001– Risk Sharing Reporting
Noncompliance

Condition:
For one of the two inspection reports tested, it was noted that the Authority was unable to provide the documentation that reports were submitted to HUD within 30 days of the completion of the field work. Management made progress towards implementing new policy and procedures as stated in last year's corrective action plan; however, reports were not submitted timely.

Reason for Finding Recurrence:
One of the three risk sharing property inspection reports tested was not submitted within the 30 days from the end of field work.

Status at 2017:
Modified as finding 2017-001

FINDING 2016-002– HOME Eligibility
Noncompliance

Prior Year Condition:
For two of five homeowners tested, we noted that the annual income of the homeowner's household did not include income from all family members living in the household.

Status at 2017:
Resolved; no such findings were noted in the current year.

FINDING 2016-003– HOME Reporting
Noncompliance

Prior Year Condition:
We tested one HUD 60002 Section 3 report and noted that the report submission date into the SPEARS system was April 4, 2016 which was 4 days after the March 31, 2016 deadline.

Status at 2017:
Resolved; no such findings noted in the current year.

FINDING 2016-004– HOME Subrecipients
Noncompliance

Prior Year Condition:
For each of the five subrecipient files tested, we noted that the Authority did not have documentation of a valid excluded parties search that pertains to the subrecipient, prior to the project acceptance.

Status at 2017:
Resolved; no such findings were noted in the current year.

Other Required Schedules

An exit conference was conducted on November 30, 2017, in which the contents of this report were discussed with the following:

New Mexico Mortgage Finance Authority
Dennis Burt, Chair of Board and Finance Committee Member
Steven Smith, Chair of Finance Committee and Board Treasurer
Mark Van Dyke, Finance Committee Member (by phone)
Jay Czar, Executive Director
Gina Hickman, Deputy Director of Finance & Administration
Isidoro Hernandez, Deputy Director of Programs
Yvonne Segovia, Controller

Moss Adams LLP
Laurie Tish, Partner
Amy Carter, Senior Manager
Janna Skinner, Senior

New Mexico Mortgage Finance Authority 344 4th St. SW, Albuquerque, NM 87102
tel. 505.843.6880 *toll free* 800.444.6880 *housingnm.org*

MFA | *Housing New Mexico*

CORRECTIVE ACTION PLAN

November 30, 2017

The New Mexico Mortgage Finance Authority respectfully submits the following corrective action plan for the year ended September 30, 2017.

Name and address of independent public accounting firm:

Moss Adams LLP
6565 Americas Parkway NE, Suite 600
Albuquerque, NM 87110

Audit period: Year ended September 30, 2017

The findings from the September 30, 2017 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

II. FINANCIAL STATEMENT FINDINGS

FINDING 2017-001 (2016-001)– Risk Sharing Reporting

Recommendation:
Management should establish policies and procedures to ensure all inspection reports are submitted within 30 days, and should retain documentation of timely submission.

Views of responsible officials and planned corrective actions:
Management agrees. The tracking database will be updated upon scheduling of the monitoring, rather than after the monitoring is completed. Automated reminders will be sent to the Housing Program Analyst conducting the monitoring, the Assistant Director of Asset Management, and the Director of Asset Management prior to the due date notifying them of the deadline for issuing the report. The database will be updated with these changes by 12/31/2017. Responsible Party: Deputy Director of Programs.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-002 Section 8 Contract Administration - Management and Occupancy Review

Recommendation:
Management should review policies and procedures to ensure that the owner's responses to Managements and Occupancy Reviews (MORS) are properly followed up within ten days per the HUD approved work plan or HUD Section 8 Contract Administration Initiative chapter 6-8 which requires owner's responses to be followed up on within 30 days.

Views of responsible officials and planned corrective actions:
Management agrees. The work plan will be updated to require follow-up within 30 days. In addition, a general department email account will be created for owners to send all MOR responses, which can then be monitored by all staff in the department to take action. Also automated reminders and/or reports will be added to the database to ensure timely follow-up. These changes will be implemented by 2/1/2018. Responsible Party: Deputy Director of Programs.

Questions regarding this plan can be addressed to Yvonne Segovia at (505) 767-2253 ysegovia@housingnm.org.

Sincerely yours,

New Mexico Mortgage Finance Authority

Gina Hickman
Deputy Director of Finance & Administration
Acting Executive Director