Financial Statements and
GNMA Compliance Reports

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

September 30, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)
BOARD OF DIRECTORS
SEPTEMBER 30, 2016

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

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 business-type activities of the New Mexico Mortgage Finance Authority (the Authority), a component unit of the State of New Mexico, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

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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 financial position of the business-type activities of the New Mexico Mortgage Finance Authority as of September 30, 2016 and 2015, and the changes in financial position, and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

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

Supplementary and Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal regulations (CFR) Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards,* the

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Schedules of Computation of Adjusted Net Worth in Accordance with the Requirements of the Government National Mortgage Association (GNMA), Institution-wide Capital Requirement Calculation, Liquid Asset Requirement, and Schedule of Insurance-GNMA Required Insurance Coverage-Issuer Identification Number 3676, required by the Government National Mortgage Association, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The other information, Schedule of Vendor Information per the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
December 13, 2016

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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, 2016, 2015, and 2014. 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 Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement 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 Statement of Net Position includes all of the Authority's assets and liabilities, presented in order of liquidity, along with deferred outflows and deferred inflows. 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 Statement 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 statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, noncapital financing, capital and related financing and investing activities. The statement provides 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 pension information and other supplemental information, such as combining schedules for the Authority's programs.

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

Financial Highlights

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

		2016	2015	2014 (restated)
Cash and cash equivalents (unrestricted and restricted)	$	75,374	67,707	71,689
Notes receivable		13,404		
Investments (unrestricted and restricted)		63,883	62,572	62,316
Mortgage-backed securities and mortgage loans receivable		837,251	870,148	935,630
Total assets		997,686	1,007,430	1,077,060
Bonds payable		698,555	737,956	812,561
Total liabilities		745,046	762,487	836,812
Total net position		253,520	246,098	241,549
Total operating revenues		46,227	45,375	55,420
Total operating expenses		38,725	41,348	45,971
Operating income (loss)		7,502	4,027	9,449
Total nonoperating revenues		(80)	522	211
Change in net position		7,422	4,549	9,660

Financial Position

The net position of the Authority increased $7.4 million from September 30, 2015 to September 30, 2016 and increased $4.5 million from September 30, 2014 to September 30, 2015. The following table is a condensed summary of net position at September 30, 2016, 2015, and 2014 (in thousands):

	2016	2015	2014 (restated)
Assets:			
Current assets	$ 79,183	55,658	50,889
Noncurrent assets	918,503	951,772	1,026,171
Total assets	997,686	1,007,430	1,077,060
Deferred outflows of resources:			
Unamortized loss on refunding	880	1,155	1,301
Total deferred outflows of resources	880	1,155	1,301
Liabilities:			
Current liabilities	72,775	34,749	36,123
Noncurrent liabilities	672,271	727,738	800,689
Total liabilities	745,046	762,487	836,812
Net position:			
Invested in capital assets, net of related debt	995	1,003	(681)
Restricted	78,017	79,466	83,872
Restricted for land title trust and housing trust	27,369	26,631	25,881
Unrestricted	147,139	138,998	132,477
Total net position	$ 253,520	246,098	241,549

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. The Authority 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 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 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.

Comparison of Years Ended September 30, 2015 and 2014

The decrease in cash and cash equivalents of $4.0 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 higher interest rate debt. Other factors include accelerating the recording of excess revenues from securitized mortgage loans thus resulting in redemptions more accurately reflecting funds available for redemption, as well as new bond structures with monthly and quarterly call provisions, thus providing better liquidity management in relation to the Single Family Bond Program. This decrease is offset by the recording of escrow and reserve cash balances in restricted cash. The Authority purchased $29.9 million in Mortgage Backed Securities (MBS) and $15.8 million in whole loans during the year; MBS and whole loan purchases were offset by MBS prepayments of $80.1 million and whole loan prepayments of $.8 million, reflected in the $65.5 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 interest rates on new bond issuances. This business model 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 6.5% 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 $74.6 million net decrease in bonds payable. As already noted, single family loans are being sold and not funded with debt, thus Authority liabilities decreased 8.9%. Proceeds from the issuance and sale of bonds and notes payable were $88.2 million; bond repayments and refundings totaled $155.7 million, resulting in the net decrease for the year. The Authority received $98.1 million in repayments, including prepayments, of securitized mortgage loans and $9.1 million of whole loan and down payment assistance loan repayments during the year.

Change in Financial Position

The Authority's operating income for the year increased by approximately $3.5 million when compared to fiscal year 2015. The following table is a condensed summary of changes in net position for the years ended September 30, 2016, 2015, and 2014 (in thousands):

		2016	2015	2014 (restated)
Operating revenues:				
Interest on loans and MBS	$	34,759	36,962	41,600
Interest on securities and investments		2,564	2,781	3,110
Program revenues		959	926	1,237
Net (decrease) increase in fair value of investments		(2,323)	(326)	2,795
Loan and commitment fees		453	348	198
Administrative fees		7,013	5,286	5,031
Other revenues		2,802	(602)	1,449
Total operating revenues		46,227	45,375	55,420
Operating expenses:				
Interest expense		26,987	30,174	35,137
Administrative fees and other expenses		11,738	11,174	10,834
Total operating expenses		38,725	41,348	45,971
Operating (loss) income		7,502	4,027	9,449
Nonoperating revenues (expenses):				
Grant award income		42,970	44,050	42,228
Grant award expense		(42,970)	(44,050)	(42,228)
State appropriations		-	500	200
Land title trust contributions		30	22	11
Land title trust distributions		(110)	-	-
Total nonoperating revenues		(80)	522	211
Change in net position		7,422	4,549	9,660
Total net position, beginning of year		246,098	241,549	231,889
Total net position, end of year	$	253,520	246,098	241,549

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. The Authority'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 in its unaudited management financial statements. Without the required GASB No. 31 adjustment, the operating income for the period increased $5.5 million compared to prior year.

Operating revenues increased $0.9 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.

Comparison of Years Ended September 30, 2015 and 2014

The change in fair value of securities for 2015 was a decrease of $.3 million compared to an increase of $2.8 million in 2014. This line represents a decrease in the overall fair value of investments, including securitized mortgage loans, held at September 30, 2015 compared to their fair value at September 30, 2014. These valuation changes are due to interest rate sensitivity and a decrease in securitized mortgage loans at September 30, 2015 of $70.8 million compared to September 30, 2014. 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 until the bonds are paid in full. The Authority'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 in its unaudited management financial statements. Without the required GASB No. 31 adjustment, the operating income for the period decreased $2.3 million compared to prior year.

Operating revenues decreased $10.0 million from 2014 to 2015; without the required GASB No. 31 adjustment operating revenues were $6.9 million less than in 2014. 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 $4.3 million in the current year. Additionally, other revenues decreased $2.1 million in 2015 as the realized State Investment Council fair market value adjustments decreased $2.6 million in comparison to 2014.

Operating expenses decreased by $4.6 million in 2015, approximately 10.1%, primarily due to decreased interest expense of $5.0 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 issued by the Authority to fund affordable housing activities in New Mexico is tax-exempt and is issued under the Internal Revenue Code and Treasury Regulations governing either mortgage revenue bonds or residential rental projects. The Federal Tax Reform Act of 1986 imposes an annual ceiling on the aggregate amount of federally tax-exempt private activity bonds or Private Activity Bond Cap (Bond Cap). Each year, the New Mexico State Board of Finance receives and allocates Bond Cap based on the federal formula to both single and multifamily housing for tax-exempt bonding purposes.

The Authority continually investigates and utilizes financing and debt management techniques designed to achieve its goals of minimizing interest expense and efficiently utilizing Bond Cap while managing risk and responding to changing capital markets. The Authority evaluates other innovative financing structures and asset/liability management strategies as needed to maximize earnings in both the long and short term. This includes using existing liquidity to warehouse loans in order to minimize bond acquisition fund negative arbitrage, utilizing monthly pass-through bond structures, issuing taxable bonds when rates are beneficial, refining internal processes for ensuring that cash received in relation to prepayments is used to redeem bonds as quickly as possible, and reviewing callable programs to determine if earnings could be maximized by eliminating debt and using the assets to generate more income or as subsidy to upcoming bond issues creating more competitive mortgage rates. The Authority reviews and monitors program parity, cash flow projections, prepayment speeds and internal rates of return related to General Fund bond cost contributions. Management of the overall bond portfolio and related assets is an ongoing process.

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. The Authority 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 2015, the Authority issued $81.8 million of Single Family Mortgage Program revenue bonds of which approximately $46.8 million was related to bond refunding transactions. This is $53.8 million more than the $28 million issued in 2014. MFA also sold $115.5 million of single family first-time homebuyer mortgages during the course of the year. As noted above, the sale of loans versus issuing debt to fund the Single Family Mortgage Program has become an integral funding execution. Due to utilization of 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, negative arbitrage expenses decreased approximately $.5 million this fiscal year in comparison to 2014. The Authority redeemed $152.7 million of Single Family Mortgage Program bonds due to repayments and maturities, compared to $163.2 million in 2014.

During fiscal year 2016, the Authority issued $10.3 million in Rental Housing Bonds, while in 2015; $11 million Rental Housing Bonds were issued. In 2016, $1.8 million of Rental Housing Bonds were redeemed due to repayments compared to $1.7 million in 2015.

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

Economic Outlook

The Authority's Single Family Mortgage Program, administration of federal affordable housing programs and investment income are the main sources of revenues. During 2016, 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.

The Authority's Single Family Mortgage Programs rely on short-term liquidity from the Master Servicers, which purchase the mortgage loans from the lenders, then securitize them into Federal National Mortgage Association (Fannie Mae) and Government National Mortgage Association (Ginnie Mae) MBS. The underlying mortgage loans are all fixed-rate, 30-year loans meeting the criteria for guarantee by Fannie Mae and Ginnie Mae. The 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. 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. To date, the Master Servicers, Fannie Mae, Ginnie Mae, and the bond investors have continued to provide liquidity without interruption to the Authority's Single Family Mortgage Programs.

The programs have historically relied on Guaranteed Investment Contracts (GIC) for the temporary investment of bond proceeds and also for the ongoing investment of monthly MBS revenues between debt service dates. The GIC providers must maintain financial strength as evidenced by their credit rating in order for the bonds to maintain their rating. The Authority continues to have difficulty maintaining and securing GIC providers for the Single Family Mortgage Programs as the market recovers and is utilizing AAAm rated money market funds when necessary. Returns on GICs and money market funds are very low, impacting the negative arbitrage experienced by the Authority for these programs. Additionally, some GIC providers have not been able to maintain their minimum required credit rating levels and this has produced some bond rating downgrades in the Authority's multi-family portfolio over the last 6 years. This presents more of a rating risk versus a financial risk for the Authority, as these funds remain fully invested and cash flows are monitored closely. Because of the current low interest rate environment, the rating agencies revised their stress test criteria related to housing bonds transactions and require that cash flows be run assuming reinvestment rates at times as low as zero percent when there is not a GIC in place. Despite the low interest rates and low reinvestment rate assumptions, all of the Authority's single family bonds continue to meet all required cash flow stress tests.

The Authority's investments outside of the Single Family Mortgage Programs are conservative, and include the AAAm rated New Mexico State Treasurer's Office Local Government Investment Pool and internal loan warehousing for short-term investments, highly liquid and marketable intermediate-term Treasury and Agency obligations, and for long-term investment, the nonrated State Investment Council Investment Funds Program utilizing 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 5.4% 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 $2.3 million in fair market value gains in comparison to 2015 when fair market value losses were $1.0 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 2016 was 8.8%, and the portfolio yield was 3.0%.

Moving into fiscal year 2017, 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 2017 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 also 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. The Authority does, however, believe that the down payment assistance programs will help in maintaining program demand and viability.

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

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

STATEMENTS OF NET POSITION

ASSETS	(In Thousands) September 30, 2016	2015
Current assets:		
Cash and cash equivalents:		
Unrestricted	$ 33,636	$ 24,469
Restricted	14,959	14,873
Restricted cash held in escrow	11,248	10,874
Total cash and cash equivalents	59,843	50,216
Notes receivable	13,404	-
Accrued interest receivable	3,325	3,489
Other current assets	2,611	1,953
Total current assets	79,183	55,658
Noncurrent assets:		
Restricted cash and cash equivalents	15,531	17,491
Investments:		
Restricted investments	10,173	12,796
Unrestricted investments	52,716	48,540
Unrealized gain on restricted and unrestricted investments	994	1,236
Total investments, net	63,883	62,572
Restricted securitized mortgage loans, net:		
Securitized mortgage loans, net	591,767	641,444
Unrealized gain on securitized mortgage loans	40,209	42,290
Restricted securitized mortgage loans, net	631,976	683,734
Mortgage loans, net:		
Restricted mortgage loans, net	115,281	102,983
Restricted trust funds mortgage loans, net	16,416	13,442
Unrestricted mortgage loans, net	73,578	69,989
Total mortgage loans, net	205,275	186,414
Capital assets	995	1,003
Intangible assets	394	67
Other noncurrent assets	449	491
Total noncurrent assets	918,503	951,772
Total assets	997,686	1,007,430
Deferred outflows of resources:		
Unamortized loss on refunding	880	1,155
Total assets and deferred outflows of resources	$ 998,566	$ 1,008,585

See accompanying notes.

	(In Thousands)	
	September 30,	
LIABILITIES AND NET POSITION	2016	2015
Current liabilities:		
Escrow deposits and reserves	$ 11,248	$ 10,874
Accrued interest payable	3,261	4,155
Accounts payable and other accrued expenses	4,733	4,801
Compensated absences	373	358
Current portion of bonds payable	30,186	13,837
Current portion of notes payable	22,974	724
Total current liabilities	72,775	34,749
Noncurrent liabilities:		
Bonds payable	668,369	724,119
Notes payable	3,606	3,288
Accrued arbitrage rebate	51	85
Other noncurrent liabilities	245	246
Total noncurrent liabilities	672,271	727,738
Total liabilities	745,046	762,487
Net position:		
Net investment in capital assets	995	1,003
Restricted for debt service	78,017	79,466
Restricted for land title trust and housing trust	27,369	26,631
Unrestricted	147,139	138,998
Total net position	253,520	246,098
Total liabilities and net position	$ 998,566	$ 1,008,585

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) Year Ended September 30, 2016	2015
Operating revenues:		
Interest on mortgage loans and securitized mortgage loans	$ 34,759	$ 36,962
Interest on securities and investments	2,564	2,781
Net decrease in fair value of investments	(2,323)	(326)
Housing program income	1,094	1,073
Program servicing fees	(135)	(147)
Loan and commitment fees	453	348
Administrative fees	7,013	5,286
Other revenues	2,802	(602)
Total operating revenues	46,227	45,375
Operating expenses:		
Interest expense	26,987	30,174
Bond issuance costs	1,154	1,010
Provision for loan losses	798	681
Administrative and other expenses	9,786	9,483
Total operating expenses	38,725	41,348
Operating income	7,502	4,027
Nonoperating revenues (expenses):		
Grant income	42,970	44,050
Grant expense	(42,970)	(44,050)
State Appropriation	-	500
Land title trust contributions	30	22
Land title trust distributions	(110)	-
Total nonoperating (expenses) revenues	(80)	522
Change in net position	7,422	4,549
Total net position, beginning of year	246,098	241,549
Total net position, end of year	$ 253,520	$ 246,098

See accompanying notes.

	(In Thousands) Year Ended September 30, 2016	2015
Cash flows from operating activities:		
Purchase of loans	$ (28,783)	$ (15,762)
Receipts of loan repayments	9,178	9,103
Loan and commitment fees	453	348
Mortgage interest received	36,449	39,534
Purchase of securitized mortgage loans	(38,936)	(29,938)
Principal repayment of securitized mortgage loans	86,479	98,094
Restricted escrow and reserves, net	374	-
Receipts for services	3,072	3,212
Payments to employees for services	(5,879)	(5,538)
Payments to suppliers of goods or services	(3,608)	(3,596)
Other receipts	4,707	3,128
Net cash flows from operating activities	63,506	98,585
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds and notes payable	159,575	88,214
Repayment and refunding of bonds and notes payable	(173,505)	(155,730)
Payment of interest on bonds and notes	(30,636)	(34,591)
Payment of arbitrage rebate, net	3	3
Payment for bond issuance costs	(1,027)	(1,007)
State appropriations	-	500
Receipt of grant income	42,545	43,841
Payment of grant to subrecipients	(42,545)	(43,841)
Contributions to land title trust	30	22
Land title trust distribution	(110)	-
Net cash flows from noncapital financing activities	(45,670)	(102,589)
Cash flows from capital financing activities:		
Purchases of capital assets	(120)	-
Repayment of capital debt	-	(1,885)
Payment for interest on capital debt	-	(79)
Net cash flows from capital financing activities	(120)	(1,964)
Cash flows from investing activities:		
Proceeds (payments) of notes receivable	(13,404)	-
Proceeds (purchase) of other real estate owned	30	32
Purchase of investments	(12,999)	(17,136)
Proceeds from maturity and sale of investments	14,835	17,526
Investment interest income	1,440	1,565
Premium on investments	(16)	(1)
Gain on sale of securities	65	-
Net cash flows from investing activities	(10,049)	1,986
Net decrease in cash and cash equivalents	7,667	(3,982)
Cash and cash equivalents, beginning of year	67,707	71,689
Cash and cash equivalents, end of year	$ 75,374	$ 67,707
Current cash and cash equivalents	$ 59,843	$ 50,216
Noncurrent cash and cash equivalents	15,531	17,491
Cash and cash equivalents, end of year	$ 75,374	$ 67,707

See accompanying notes.

STATEMENTS OF CASH FLOWS (CONTINUED)

	(In Thousands) Year Ended September 30, 2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 7,502	$ 4,027
Adjustments to reconcile operating income to net cash cash from operating activities:		
Net decrease in the fair value of investments	2,323	326
Bond issuance costs	1,154	1,010
Loan and commitment fees	(453)	(348)
Amortization of securitized mortgage loans and mortgage loan discounts/premiums	2,064	2,229
(Gain) loss on sale of assets	(37)	31
Depreciation and amortization expense	134	145
Provision of loan losses	798	681
Investment interest income	(2,564)	(2,781)
Interest on bonds and notes payable	26,987	30,174
Changes in assets and liabilities:		
Accrued interest receivable on securitized mortgage loans and mortgage loans	159	536
Other current assets	(658)	(358)
Other noncurrent assets	42	62
Accounts payable and other accrued expenses	(68)	(460)
Compensated absences	15	2
Other noncurrent liabilities	(1)	9
Securitized mortgage loans, net cost	44,917	69,279
Mortgage loans	(18,808)	(5,979)
Net cash flows from operating activities	$ 63,506	$ 98,585

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*.

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. Each single family bond indenture is accounted for as a segment. See Note 18 for segment financial statements.
- Rental Housing Programs – Accounts for the proceeds from bonds, the debt service requirements of the bonds, and the related loans to qualified lenders for the purpose of financing multifamily rental housing facilities in New Mexico. Each multifamily bond indenture is accounted for as a segment. See Note 18 for segment financial statements.
- General Accounts – Accounts for assets, liabilities, revenues, and expenses not directly attributable to a bond program. Most of the bond resolutions of the programs permit the Authority to make cash transfers to the general accounts after establishing reserves required by the bond resolutions. The general accounts financially support the bond programs when necessary. The general accounts include proprietary loan programs developed by the Authority to meet the needs of low- and moderate-income borrowers not served by traditional lending programs. This group of accounts is referred to as the Housing Opportunity Fund and includes the ACCESS Loan program, HERO Loan program, Primero program, Partners program, 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 Low-Income Housing Tax Credits (LIHTC) during the period from October 1, 2006 to September 30, 2009, and required additional funding to be completed and placed into service in accordance with the LIHTC requirements of Section 42 of the Internal Revenue Code (IRC).
- *New Mexico Housing Trust Fund (HTF)* – The HTF's purpose is to provide flexible funding for housing initiatives in order to produce significant additional housing investment in the State. The fund consists of all distributions and appropriations made to the fund. Earnings of the fund shall be credited to the fund, and unexpended and unencumbered balances in the fund shall not revert to any other fund. The Authority is the trustee for the fund. The fund receives revenue from the following recurring sources: 1) appropriations and transfers from the State of New Mexico; 2) any other money appropriated or distributed to the fund; 3) any private contributions to the fund; or 4) earnings of the fund. Money in the fund is appropriated to the Authority for the purposes of carrying out the provisions of the New Mexico Housing Trust Fund Act, which are to provide affordable residential housing to persons of low or moderate income.

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 revenue in the statements of revenues, expenses, and changes in net position as net increase (decrease) in fair value of investments, in accordance with GASB No. 31 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, 2016 and 2015 were $5.0 million and $5.3 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 $90,000 and $96,000 as of September 30, 2016 and 2015, respectively. Mortgage loans are placed on nonaccrual after 90 days delinquency.

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. Depreciation expense is not computed on assets under construction until the asset is put into service. Furniture and equipment purchases less than $5,000 or with lives of one year or less, and maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

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

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 Statement 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 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.

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

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. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33). Revenues are recognized when all applicable eligibility requirements have been met, specifically when expenditures related to the grant awards have been incurred, submitted, and approved for payment.

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

Operating expenses include activities that have the characteristics of an exchange transaction such as a) employee salaries, benefits, and related expense; b) utilities, supplies, and other services; c) professional fees; and d) depreciation expenses related to capital assets. Operating expenses also include interest expense since lending activities constitute the Authority's principal ongoing operations.

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

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.

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, 2016	September 30, 2015
Cash on deposit at financial institutions	$ 29,711	$ 17,444
Cash on deposit at New Mexico State Treasurer	4,663	7,218
Cash on deposit held in escrow (Note 17)	11,248	10,874
Cash equivalents not considered deposits:		
Money market funds	20,374	19,363
Repurchase agreements	444	1,048
Guaranteed investment contracts	8,934	11,760
	$ 75,374	$ 67,707

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 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.

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

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, 2016 and 2015, the Authority's bank balance was $25,893,000 and $13,060,000, respectively. Of this amount at September 30, 2016 and 2015, $250,000 was insured by the Federal Deposit Insurance Corporation (FDIC). The total amounts subject to custodial credit risk at September 30, 2016 and 2015 are $12,568,000 and $3,102,000, respectively. Management does not believe the remaining $13,075,000 and $9,708,000 is subject to custodial credit risk at September 30, 2016 and 2015, 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 investments and maturities at September 30, 2016 and 2015 (in thousands):

	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

	September 30, 2015					
		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1–5	6–10	More than 10	Not Available
Money market funds	$ 19,363	$ 19,363	$ -	$ -	$ -	$ -
Repurchase agreements	3,979	3,979	-	-	-	-
Guaranteed investment contracts	11,760	9,068	85	-	2,607	-
Internal state investment pools:						
State Treasurer	7,218	7,218	-	-	-	-
State Investment Council	33,443	-	-	-	-	33,443
U.S. agencies	9,003	-	9,003	-	-	-
Securitized mortgage loans:						
Unrestricted	14,494	-	-	1,654	12,840	-
Restricted	683,734	7	6	1,037	682,684	-
	$ 782,994	$ 39,635	$ 9,094	$ 2,691	$ 698,131	$ 33,443

The following tables provide information on the credit ratings associated with the Authority's investments in debt securities at September 30, 2016 and 2015 (in thousands):

	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

	September 30, 2015						
Investment Type	Fair Value	AAA	AA	A	U.S. Government Guaranteed	Not Rated	Not Available
Money market funds	$ 19,363	$ -	$ -	$ -	$ -	$ 19,363	$ -
Repurchase agreements	3,979	-	-	-	-	3,979	-
Guaranteed investment contracts	11,760	-	10,026	1,734	-	-	-
Internal state investment pools:							
State Treasurer	7,218	7,218	-	-	-	-	-
State Investment Council	33,443	-	-	-	-	-	33,443
U.S. agencies	9,003	-	9,003	-	-	-	-
Securitized mortgage loans:							
Unrestricted	14,494	-	5,101	-	9,393	-	-
Restricted	683,734	-	125,579	-	558,155	-	-
	$ 782,994	$ 7,218	$ 149,709	$ 1,734	$ 567,548	$ 23,342	$ 33,443

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

Concentration of credit risk – Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. The following issuers and their respective percentage of total investments represent greater than 5% of the Authority's total investments reported on the statement of net position as of September 30, 2016 and 2015, respectively: Ginnie Mae 77% and 76%, and Fannie Mae 17% and 18%.

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

	2016	2015
Total mortgage loan principal outstanding	$ 207,992	$ 189,095
Less:		
Allowance for mortgage loan losses	(2,717)	(2,681)
Mortgage loans, net	$ 205,275	$ 186,414

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

	2016	2015
Beginning balance	$ 2,681	$ 2,513
Provision for loan losses	798	681
Loans written off net of recoveries	(762)	(513)
Ending balance	$ 2,717	$ 2,681

Note 3 – Mortgage Loans, net (continued)

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 9.99%
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, 2016 and 2015, mortgage loans with pending foreclosure actions have aggregate principal balances of approximately $174,000 and $133,000, respectively. As of September 30, 2016 and 2015, mortgage loans' total delinquent aggregate principal balances are approximately $5,908,000 and $8,781,000, 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):

	2016	2015
Southwest Neighborhood Housing Services	$ 508	$ 520
TIWA Lending Services	4,813	4,209
AFL-CIO	2,834	2,878
Fannie Mae Loans	17,855	17,862
Habitat for Humanity/Valencia County	27	29
Ginnie Mae Loans	35,880	650
Southwest Community Resources	19	25
Superior Mortgage	7	7
Wallick & Volk, Inc.	6	7
Hometrust	19	19
City of Albuquerque	11,509	10,370
Ventana Fund	1,256	1,544
	$ 74,733	$ 38,120

Note 4 – Capital Assets

Changes in capital assets during 2016 and 2015 were as follows (in thousands):

	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

	October 1, 2014	Additions	Dispositions	September 30, 2015
Land (nondepreciable)	$ 512	$ -	$ -	$ 512
Building and improvements	3,041	-	-	3,041
Furniture and equipment	1,895	-	-	1,895
Total capital assets	5,448	-	-	5,448
Less accumulated depreciation:				
Building and improvements	(2,578)	(76)	-	(2,654)
Furniture and equipment	(1,736)	(55)	-	(1,791)
Total accumulated depreciation	(4,314)	(131)	-	(4,445)
Capital assets, net	$ 1,134	$ (131)	$ -	$ 1,003

Note 5 – Bonds Payable

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

Single Family Mortgage Programs	2016	2015
2006 Series A – 4.375% to 5.95% interest payable semiannually, principal due through 2037	$ -	$ 9,390
2006 Series B – 4.30% to 5.90% interest payable semiannually, principal due through 2037	-	7,685
2006 Series C – 4.35% to 6.15% interest payable semiannually, principal due through 2037	-	8,410
2006 Series D – 4.50% to 6.00% interest payable semiannually, principal due through 2037	-	7,620
2006 Series E – 4.60% to 6.05% interest payable semiannually, principal due through 2038	-	6,945
2006 Series F – 4.70% to 6.15% interest payable semiannually, principal due through 2038	-	11,260
2007 Series A – 4.625% to 5.75% interest payable semiannually, principal due through 2038	6,725	7,850
2007 Series B – 4.20% to 5.30% interest payable semiannually, principal due through 2039	13,915	18,445
2007 Series C – 4.875% to 5.92% interest payable semiannually, principal due through 2039	8,920	10,555
2007 Series D – 5.00% to 6.27% interest payable semiannually, principal due through 2039	11,420	14,200
2007 Series E – 4.90% to 6.35% interest payable semiannually, principal due through 2039	12,185	15,145
2008 Series A – 4.20% to 5.60% interest payable semiannually, principal due through 2039	9,560	12,805
2008 Series B – 5.00% to 6.375% interest payable semiannually, principal due through 2039	6,830	8,160
2008 Series C – 5.00% to 6.95% interest payable semiannually, principal due through 2039	4,455	5,860
2008 Series D –4.125% to 5.50% interest payable semiannually, principal due through 2039	12,585	14,620
2009 Series A – 3.90% to 6.00% interest payable semiannually, principal due through 2039	7,565	8,650
2009 Series B – 3.60% to 5.65% interest payable semiannually, principal due through 2039	15,900	19,845
2009 Series C – 4.00% to 5.70% interest payable semiannually, principal due through 2040	20,410	24,565
2009 Series D – 3.45% to 5.35% interest payable semiannually, principal due through 2040	18,575	21,345
2009 Series E – 3.70% to 5.30% interest payable semiannually, principal due through 2040	17,855	20,970
2010 Series A – 4.50% to 4.625% interest payable semiannually, principal due through 2028	11,565	40,165
2011 Series A – 5.00% to 5.35% interest payable semiannually, principal due through 2030	14,195	17,230
2011 Series B – 2.77% to 5.00% interest payable semiannually, principal due through 2041	21,735	24,750
2011 Series C – 2.32% to 4.625% interest payable semiannually, principal due through 2041	26,385	30,875
2012 Series A – 1.40% to 4.25% interest payable semiannually, principal due through 2043	25,895	29,525

Note 5 – Bonds Payable (continued)

Single Family Mortgage Programs	2016	2015
2012 Series B – 1.75% to 3.90% interest payable semiannually, principal due through 2043	$ 40,285	$ 44,735
2013 Series A – 2.6% interest payable monthly, principal due through 2043	17,078	19,431
2013 Series B – 2.23% to 2.85% interest payable monthly, principal due through 2043	23,543	27,027
2013 Series C – 4.50% interest payable monthly, principal due through 2043	25,856	27,797
2014 Series A – 1.25% to 5.00% interest payable semiannually, principal due through 2043	11,725	13,155
2014 Series B – 2.75% interest payable monthly, principal due through 2035	8,583	9,991
2015 Series A - 0.65% to 4.00% interest payable semiannually, principal due through 2045	33,130	34,635
2015 Series B - 2.75% interest payable monthly, principal due through 2035	6,012	6,812
2015 Series C - 3.00% interest payable monthly, principal due through 2041	21,840	24,640
2015 Series D - 3.125% interest payable monthly, principal due through 2037	11,115	13,741
2015 Series E - 3.10% interest payable monthly principal due through 2037	18,334	-
2016 Series A - 0.65% to 3.80% interest payable semiannually principal due through 2046	60,390	-
2016 Series B - 2.60% interest payable monthly principal due through 2040	24,595	-
Subtotal	569,161	618,834
Unaccreted premium, net of underwriters' discount	10,291	11,934
Subtotal single family mortgage programs, net bonds payable	$ 579,452	$ 630,768

Note 5 – Bonds Payable (continued)

Rental Housing Mortgage Programs	2016	2015
2002 Series A&B Multi Family Risk Sharing – Sandpiper – 5.40% to 6.75% interest payable semiannually, principal due through 2038	$ 8,405	$ 8,595
2003 Series A&B Multi Family Risk Sharing – Aztec – 5.10% to 5.15% interest payable semiannually, principal due through 2038	7,940	8,120
2004 Series A&B Multi Family Risk Sharing – NM5 – 5.05% to 5.20% interest payable semiannually, principal due through 2039	7,710	7,875
2004 Series C&D Multi Family Risk Sharing – Alta Vista – 5.25% to 6.00% interest payable semiannually, principal due through 2039	10,885	11,095
2004 Series F & G Multi Family Risk Sharing – Arioso – 4.95% to 5.85% interest payable semiannually, principal due through 2040	9,720	9,910
2005 Series A & B Multi Family Risk Sharing – Las Palomas – 4.70% to 4.98% interest payable semiannually, principal due through 2040	10,405	10,610
2005 Series C & D Multi Family Risk Sharing – Chateau – 4.70% interest payable semiannually, principal due through 2040	3,605	3,680
2005 Series E & F Multi Family Risk Sharing – Sun Pointe – 4.80% to 5.06% interest payable semiannually, principal due through 2040	11,460	11,685
2007 A & B Multi Family Risk Sharing – St. Anthony – 5.05% to 5.25% interest payable semiannually, principal due through 2042	5,350	5,440
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	13,032	13,192
2008 A & B Multi Family – Villas de San Ignacio variable interest rate * 0.86% and 1.00% at September 30, 2016 payable monthly, principal due through 2043	8,520	8,520
2010 A & B Multi Family Risk Sharing – Villa Alegre Senior Housing – 5% interest payable semiannually, principal due through 2047	860	870
2012 A Multi Family – Gallup Apartments – 5% interest payable monthly, principal due through 2049	4,867	4,924
2014 A Multi-Family - Santa Fe Living - 3.0625% interest payable monthly, principal due through 2017	11,446	2,516
2016 A Multi-Family - Dona Ana Apartments - 4.50% interest payable monthly, principal due through 2017	4,760	-
Subtotal	118,965	107,032
Unaccreted premium	138	156
Subtotal rental housing mortgage programs, net bonds payable	$ 119,103	$ 107,188

Note 5 – Bonds Payable (continued)

Capital Debt	2016		2015	
Total bonds payable	$	688,126	$	725,866
Total unaccreted premium, net of unamortized discount		10,429		12,090
Total bonds payable	$	698,555	$	737,956

The 2005 General Revenue 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 2016A. The bonds are secured, as described in the General Indenture and the applicable amended and supplemented Series Indenture, by the revenues, moneys, investments, mortgage loans, MBSs and other assets in the accounts established under the General Indenture and each Series Indenture.

Prior to November 2005, the Authority issued bonds under separate Trust Indentures. The bonds were secured as described in each Trust Indenture by the revenues, moneys, investments, mortgage loans, MBSs and other assets in the accounts established by each respective Trust Indenture. As of September 30, 2015, all single family stand-alone bond indentures have been paid off.

The single family mortgage loans purchased with the proceeds of all the bond issuances occurring during fiscal years 2016 and 2015 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 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.

Note 5 – Bonds Payable (continued)

- $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 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 2015, the Authority continued to issue bonds under the General Indenture of Trust dated November 1, 2005 as follows:

- $35.0 million Single Family Mortgage Program Class I Bonds, 2015 Series A (Tax-Exempt).

- $7.2 million Single Family Mortgage Program Class I Bonds, 2015 Series B (MBS Pass-Through Program) (Federally Taxable) combined with funds in the trust estates, were used to fully refund the Single Family Mortgage Program Bonds 2005 Series A and 2005 Series B. The Authority recognized a $1.7 million positive cash flow from this current refunding and an economic gain of approximately $1.5 million.

- $25.7 million Single Family Mortgage Program Class I Bonds, 2015 Series C (Federally Taxable) combined with funds in the trust estate were used to fully refund the Single Family Mortgage Program Bonds 2009 GSE Series B Bonds. The Authority recognized a $2.9 million positive cash flow from this current refunding and an economic gain of approximately $2.0 million.

- $13.8 million Single Family Mortgage Program Class I Bonds, 2015 Series D (MBS Pass-Through Program) (Federally Taxable) combined with funds in the trust estates were used to fully refund the Single Family Mortgage Program Bonds 2005 Series C and 2005 Series D. The Authority recognized a $2.5 million positive cash flow from this current refunding and an economic gain of approximately $2.2 million.

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, 2016 and 2015 consist of the following (in thousands):

	2016	2015
July 2005 Wells Fargo note bearing interest at 2.00% through August 2016.	$ -	$ 650
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.	1,930	2,000
December 2013 NM Small Business Investment Corporation Note bearing interest at 2.00% through November 2018.	900	512
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	-
	$ 26,580	$ 4,012

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, 2016 is as follows (in thousands):

	Bonds Payable		Notes Payable	
	Interest	Principal	Interest	Principal
Year(s) ending September 30:				
2017	$ 27,490	$ 30,186	$ 73	$ 22,974
2018	26,525	14,299	54	74
2019	25,979	14,798	42	974
2020	25,399	15,392	34	74
2021	24,771	16,004	33	74
2022–2026	112,941	90,583	96	1,221
2027–2031	89,780	113,172	52	371
2032–2036	64,164	131,938	33	371
2037–2041	32,690	166,207	15	371
2042–2046	6,784	94,795	2	76
2047–2050	51	752	-	-
	436,574	688,126	434	26,580
Net unaccreted premium	-	10,429	-	-
	$ 436,574	$ 698,555	$ 434	$ 26,580

Note 8 – Accounts Payable and Accrued Expenses

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

	2016	2015
Vendor	$ 3,669	$ 3,178
Employee benefits	373	284
Advances on revenue	691	1,339
	$ 4,733	$ 4,801

Note 9 – Noncurrent Liabilities and Compensated Absences

A summary of noncurrent liability and compensated absence activity for the years ended September 30, 2016 and 2015 is as follows (in thousands):

	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

	October 1, 2014	Increases	Decreases	September 30, 2015	Current Portion
Bonds payable	$ 812,561	$ 86,465	$ (161,070)	$ 737,956	$ 13,837
Note payable	2,500	1,512	-	4,012	724
Accrued arbitrage rebate	82	3	-	85	-
Other noncurrent liabilities	237	9	-	246	-
Compensated absences	356	365	(363)	358	358
	$ 815,736	$ 88,354	$ (161,433)	$ 742,657	$ 14,919

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 $638,000 and $232,000, respectively, for the year ended September 30, 2016. The Authority's and employees' contributions to the Benefit Plan were approximately $583,000 and $222,000, respectively, for the year ended September 30, 2015. 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, 2016 and 2015 (in thousands):

	2016	2015
Single family and multifamily programs as designated by the board	$ 16,013	$ 20,095
Future general operating budget, year-end September 30, 2016	15,996	12,070
Housing Opportunity Fund	92,674	85,028
Risk-sharing loss exposure	10,999	11,382
Federal and state housing programs administered by the Authority	11,457	10,423
Total board-designated net position	$ 147,139	$ 138,998

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, 2016 and 2015, the Authority is committed to assume a risk of approximately $11,820,000 and $12,185,000 for the 48 and 49 loans closed, respectively. These loans are considered in the Authority's assessment for the allowance for mortgage loan losses. As of September 30, 2016, of the 48 loans closed, 11 of the loans are not included

Note 13 – Commitments and Contingencies (continued)

in the Authority's financial statements because they are 100% participations with the AFL-CIO and Fannie Mae. Of the $11,820,000 risk assumed as of September 30, 2016, the Authority's assumed risk approximated $1,836,000 for these off balance sheet loans. The end dates for the guarantees range from 2027 – 2052. 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, 2016. As of September 30, 2016 and 2015, the Authority is committed to assume a risk of approximately $116,000 and $117,000 for the one loan closed, respectively.

The Authority participates in a number of federal financial assistance programs. These programs are subject to independent financial and compliance audits by grantor agencies. The amount, if any, of expenditures 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, 2016, 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, 2016.

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, 2016.

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 and Memorandums of Understanding

The Authority has entered into five joint powers agreements (JPAs) or memorandums of understanding (MOU) with various departments of the State. At September 30, 2016, these JPAs and MOUs were as follows:

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

(b) The Authority entered into a MOU with the New Mexico Attorney General in November 2012, which was amended December 2013, June 2015, and July 2016. 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 MOU was effective November 9, 2012, and will terminate June 30, 2017. 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 MOU.

(c) The Authority entered into a JPA with DFA in August 2015. 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, 2015, and terminated June 30, 2016. The estimated amount of the project is $199,500, 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.

(d) The Authority entered into a JPA with DFA in September 2015. The purpose of this agreement is for DFA to transfer funds to the Authority for oversight of the Affordable Housing Act. The JPA was effective July 1, 2015, and terminated June 30, 2016. The estimated amount of the project is $250,000, 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.

(e) 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 will terminate 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 2016 and 2015, the Authority incurred $850 and $5,300, 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, 2016 and September 30, 2015, 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 – Segment Financial Information

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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

Statement of Net Position	Single Family Mortgage Programs			
Assets	1994 Series A	2005 Series A	2005 Series B	2005 Series C
Current assets:				
Restricted cash and cash equivalents	$ -	$ -	$ -	$ -
Restricted investments, net	-	-	-	-
Accrued interest receivable	-	-	-	-
Other current assets	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-
Total current assets	-	-	-	-
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	-	-
Restricted investments and reserve funds, net	-	-	-	-
Restricted securitized mortgage loans, net:				
Securitized mortgage loans, net cost	-	-	-	-
Unrealized gain on securitized mortgage loans	-	-	-	-
Total restricted securitized mortgage loans, net	-	-	-	-
Restricted mortgage loans, net	-	-	-	-
Total noncurrent assets	-	-	-	-
Total assets	-	-	-	-
Deferred outflows:				
Refundings of debt	-	-	-	-
Total assets & deferred outflows	$ -	$ -	$ -	$ -
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$ -	$ -	$ -	$ -
Accounts payable and other accrued expenses	-	-	-	-
Current portion of bonds payable	-	-	-	-
Total current liabilities	-	-	-	-
Noncurrent liabilities:				
Bonds payable	-	-	-	-
Accrued arbitrage rebate	-	-	-	-
Total noncurrent liabilities	-	-	-	-
Total liabilities	-	-	-	-
Net position restricted for debt service	-	-	-	-
Total liabilities and net position	$ -	$ -	$ -	$ -

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

Statement of Net Position	Single Family Mortgage Programs		
Assets	2005 General Indenture	2009 General Indenture	Total Single Family Mortgage Programs
Current assets:			
Restricted cash and cash equivalents	$ 9,440	$ 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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

	Single Family Mortgage Programs			
Statements of Revenues, Expenses, and Changes in Net Position	1994 Series A	2005 Series A	2005 Series B	2005 Series C
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$ -	$ -	$ -	$ -
Interest on securities and temporary investments	-	-	-	-
Gain (loss) asset sale	-	-	-	-
Net increase (decrease) in fair value of investments	-	-	-	-
Loan and commitment fees	-	-	-	-
Administrative fees and other	-	-	-	-
Total operating revenues	-	-	-	-
Operating expenses:				
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Administrative fees and other	-	-	-	-
Total operating expenses	-	-	-	-
Operating income (loss)	-	-	-	-
Other financing sources (uses) – operating transfers	-	-	-	-
Change in net position	-	-	-	-
Total net position – beginning	-	-	-	-
Total net position – ending	$ -	$ -	$ -	$ -
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$ -	$ -	$ -	$ -
Noncapital financing activities	-	-	-	-
Investing activities	-	-	-	-
Net increase (decrease)	-	-	-	-
Cash and cash equivalents, beginning of year	-	-	-	-
Cash and cash equivalents, end of year	$ -	$ -	$ -	$ -

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

	Single Family Mortgage Programs		
Statements of Revenues, Expenses, and Changes in Net Position	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
Net increase (decrease) in fair value of investments	(2,655)	573	(2,082)
Loan and commitment fees	399	-	399
Administrative fees and other	(2,294)	(356)	(2,650)
Total operating revenues	16,078	5,197	21,275
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)	(2,291)	791	(1,500)
Other financing sources (uses) – operating transfers	(198)	(171)	(369)
Change in net position	(2,489)	620	(1,869)
Total net position – beginning	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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

Statement of Net Position	Rental Housing Mortgage Programs			
Assets	2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D
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	205	185	170	225
Total current liabilities	326	219	203	274
Noncurrent liabilities:				
Bonds payable	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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

Statement of Net Position	Rental Housing Mortgage Programs				
Assets	2005 Series E, F	2007 Series A, B	2007 Series C, D	2008 Series A, B	2010 Series A, B
Current assets:					
Restricted cash and cash equivalents	$ 240	$ 90	$ 9	$ -	$ 10
Accrued interest receivable	47	23	154	5	4
Other current assets	-	-	-	-	-
Intra-entity receivable (payable)	-	-	(7)	-	-
Total current assets	287	113	156	5	14
Noncurrent assets:					
Restricted cash and cash equivalents	280	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	10,894	5,159	13,032	8,520	848
Total noncurrent assets	11,174	5,323	13,032	8,520	891
Total assets	11,461	5,436	13,188	8,525	905
Deferred outflows:					
Refundings of debt	-	-	-	-	-
Total assets and deferred outflows	$ 11,461	$ 5,436	$ 13,188	$ 8,525	$ 905
Liabilities and Net Position					
Current liabilities:					
Accrued interest payable	$ 47	$ 23	$ 154	$ 5	$ 4
Accounts payable and other accrued expenses	-	-	-	-	-
Current portion of bonds payable	240	90	170	-	10
Total current liabilities	287	113	324	5	14
Noncurrent liabilities:					
Bonds payable	11,256	5,281	12,862	8,520	833
Accrued arbitrage rebate	-	-	-	-	-
Total noncurrent liabilities	11,256	5,281	12,862	8,520	833
Total liabilities	11,543	5,394	13,186	8,525	847
Net position restricted for debt service	(82)	42	2	-	58
Total liabilities and net position	$ 11,461	$ 5,436	$ 13,188	$ 8,525	$ 905

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

Statement of Net Position	Rental Housing Mortgage Programs			
Assets	2012 Series A	2014 SF Living	2016 Series A	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	61	11,446	4,760	18,062
Total current liabilities	73	11,476	4,793	18,706
Noncurrent liabilities:				
Bonds payable	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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
Statements of Revenues, Expenses, and Changes in Net Position	2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$ 483	$ 411	$ 388	$ 572
Interest on securities and temporary investments	18	15	20	27
Net increase (decrease) in fair value of investments	-	-	-	-
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
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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

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

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs				
Statements of Revenues, Expenses, and Changes in Net Position	2005 Series E, F	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	$ 554	$ 280	$ 850	$ 25	$ 45
Interest on securities and temporary investments	17	-	-	-	-
Net increase (decrease) in fair value of investments	-	-	-	-	-
Loan and commitment fees	-	-	-	-	-
Administrative fees and other	-	-	1	-	-
Total operating revenues	571	280	851	25	45
Operating expenses:					
Interest expense	561	280	850	25	44
Bond issuance costs	-	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-	-
Administrative fees and other	(19)	2	1	-	-
Total operating expenses	542	282	851	25	44
Operating income (loss)	29	(2)	-	-	1
Other financing sources (uses) – operating transfers	-	-	-	-	-
Change in net position	29	(2)	-	-	1
Total net position – beginning	(111)	44	2	-	57
Total net position – ending	$ (82)	$ 42	$ 2	$ -	$ 58
Condensed Statements of Cash Flows					
Net cash provided by (used in):					
Operating activities	$ 779	$ 364	$ 1,011	$ 20	$ 55
Noncapital financing activities	(791)	(372)	(1,011)	(20)	(53)
Investing activities	18	-	-	-	-
Net increase (decrease)	6	(8)	-	-	2
Cash and cash equivalents, beginning of year	514	262	9	-	51
Cash and cash equivalents, end of year	$ 520	$ 254	$ 9	$ -	$ 53

Note 18 – Segment Financial Information (continued)

September 30, 2016
(In Thousands)

	Rental Housing Mortgage Programs			
Statements of Revenues, Expenses, and Changes in Net Position	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
Net increase (decrease) in fair value of investments	-	-	-	-
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
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	1	-	-	4,182
Cash and cash equivalents, end of year	$ 1	$ -	$ 17	$ 4,236

Note 18 – Segment Financial Information (continued)

September 30, 2015
(In Thousands)

Statement of Net Position	Single Family Mortgage Programs			
Assets	1994 Series A	2005 Series A	2005 Series B	2005 Series C
Current assets:				
Restricted cash and cash equivalents	$ -	$ -	$ -	$ -
Restricted investments, net	-	-	-	-
Accrued interest receivable	-	-	-	-
Other current assets	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-
Total current assets	-	-	-	-
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	-	-
Restricted investments and reserve funds, net	-	-	-	-
Restricted securitized mortgage loans, net:				
Securitized mortgage loans, net cost	-	-	-	-
Unrealized gain on securitized mortgage loans	-	-	-	-
Total restricted securitized mortgage loans, net	-	-	-	-
Restricted mortgage loans, net	-	-	-	-
Total noncurrent assets	-	-	-	-
Total assets	-	-	-	-
Deferred outflows:				
Refundings of debt	-	-	-	-
Total assets & deferred outflows	$ -	$ -	$ -	$ -
Liabilities and Net Position				
Current liabilities:				
Accrued interest payable	$ -	$ -	$ -	$ -
Accounts payable and other accrued expenses	-	-	-	-
Current portion of bonds payable	-	-	-	-
Total current liabilities	-	-	-	-
Noncurrent liabilities:				
Bonds payable	-	-	-	-
Accrued arbitrage rebate	-	-	-	-
Total noncurrent liabilities	-	-	-	-
Total liabilities	-	-	-	-
Net position restricted for debt service	-	-	-	-
Total liabilities and net position	$ -	$ -	$ -	$ -

Note 18 – Segment Financial Information (continued)

September 30, 2015
(In Thousands)

Statement of Net Position	Single Family Mortgage Programs		
Assets	2005 General Indenture	2009 General Indenture	Total Single Family Mortgage Programs
Current assets:			
Restricted cash and cash equivalents	$ 9,280	$ 2,800	$ 12,808
Restricted investments, net	-	-	-
Accrued interest receivable	1,998	482	2,480
Other current assets	-	-	-
Intra-entity receivable (payable)	(295)	(32)	(327)
Total current assets	10,983	3,250	14,233
Noncurrent assets:			
Restricted cash and cash equivalents	13,851	1,008	14,859
Restricted investments and reserve funds, net	-	-	-
Restricted securitized mortgage loans, net:			
Securitized mortgage loans, net cost	503,147	138,297	641,444
Unrealized gain on securitized mortgage loans	33,712	8,578	42,290
Total restricted securitized mortgage loans, net	536,859	146,875	683,734
Restricted mortgage loans, net	-	-	-
Total noncurrent assets	550,710	147,883	698,593
Total assets	561,693	151,133	712,826
Deferred outflows:			
Refundings of debt	1,155	-	1,155
Total assets & deferred outflows	$ 562,848	$ 151,133	$ 713,981
Liabilities and Net Position			
Current liabilities:			
Accrued interest payable	$ 3,134	$ 409	$ 3,543
Accounts payable and other accrued expenses	7	7	14
Current portion of bonds payable	9,280	2,800	12,080
Total current liabilities	12,421	3,216	15,637
Noncurrent liabilities:			
Bonds payable	481,819	136,869	618,688
Accrued arbitrage rebate	85	-	85
Total noncurrent liabilities	481,904	136,869	618,773
Total liabilities	494,325	140,085	634,410
Net position restricted for debt service	68,523	11,048	79,571
Total liabilities and net position	$ 562,848	$ 151,133	$ 713,981

Note 18 – Segment Financial Information (continued)

September 30, 2015
(In Thousands)

	Single Family Mortgage Programs			
Statements of Revenues, Expenses, and Changes in Net Position	1994 Series A	2005 Series A	2005 Series B	2005 Series C
Operating revenues:				
Interest on mortgage loans and securitized mortgage loans	$ 4	$ 107	$ 120	$ 132
Interest on securities and temporary investments	-	-	7	8
Gain (loss) asset sale	-	-	-	-
Net increase (decrease) in fair value of investments	(17)	(478)	(625)	(440)
Loan and commitment fees	-	-	-	-
Administrative fees and other	-	(6)	-	(13)
Total operating revenues	(13)	(377)	(498)	(313)
Operating expenses:				
Interest	-	125	138	235
Bond issuance costs	-	-	-	-
Administrative fees and other	1	2	1	2
Total operating expenses	1	127	139	237
Operating income (loss)	(14)	(504)	(637)	(550)
Other financing sources (uses) – operating transfers	(335)	(127)	(437)	(447)
Change in net position	(349)	(631)	(1,074)	(997)
Total net position – beginning	349	631	1,074	997
Total net position – ending	$ -	$ -	$ -	$ -
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	$ (71)	$ 5,908	$ 6,398	$ 6,740
Noncapital financing activities	(16)	(6,043)	(6,985)	(7,044)
Investing activities	-	-	11	8
Net increase (decrease)	(87)	(135)	(576)	(296)
Cash and cash equivalents, beginning of year	87	135	576	296
Cash and cash equivalents, end of year	$ -	$ -	$ -	$ -

Note 18 – Segment Financial Information (continued)

September 30, 2015
(In Thousands)

	Single Family Mortgage Programs		
Statements of Revenues, Expenses, and Changes in Net Position	2005 General Indenture	2009 General Indenture	Total Single Family Mortgage Programs
Operating revenues:			
Interest on mortgage loans and securitized mortgage loans	$ 22,134	$ 5,630	$ 28,127
Interest on securities and temporary investments	572	2	589
Gain (loss) asset sale	-	-	-
Net increase (decrease) in fair value of investments	119	713	(728)
Loan and commitment fees	348	-	348
Administrative fees and other	(1,803)	(360)	(2,182)
Total operating revenues	21,370	5,985	26,154
Operating expenses:			
Interest	19,538	4,746	24,782
Bond issuance costs	716	294	1,010
Administrative fees and other	179	24	209
Total operating expenses	20,433	5,064	26,001
Operating income (loss)	937	921	153
Other financing sources (uses) – operating transfers	(2,098)	(969)	(4,413)
Change in net position	(1,161)	(48)	(4,260)
Total net position – beginning (as restated)	69,684	11,096	83,831
Total net position – ending	$ 68,523	$ 11,048	$ 79,571
Condensed Statements of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 49,021	$ 24,816	$ 92,812
Noncapital financing activities	(54,465)	(25,677)	(100,230)
Investing activities	606	2	627
Net increase (decrease)	(4,838)	(859)	(6,791)
Cash and cash equivalents, beginning of year	27,969	4,667	33,730
Cash and cash equivalents, end of year	$ 23,131	$ 3,808	$ 26,939

Note 18 – Segment Financial Information (continued)

September 30, 2015
(In Thousands)

Statement of Net Position	Rental Housing Mortgage Programs						
Assets	2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D	2004 Series F, G	2005 Series A, B	2005 Series C, D
Current assets:							
Restricted cash and cash equivalents	$ 190	$ 180	$ 165	$ 210	$ 190	$ 205	$ 75
Accrued interest receivable	45	36	35	49	43	46	14
Other current assets	-	-	-	-	-	-	-
Intra-entity receivable (payable)	-	-	-	-	-	-	-
Total current assets	235	216	200	259	233	251	89
Noncurrent assets:							
Restricted cash and cash equivalents	389	228	296	338	310	484	85
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	7,972	7,596	7,610	10,566	9,555	9,858	3,474
Total noncurrent assets	8,361	7,824	7,906	10,904	9,865	10,342	3,559
Total assets	8,596	8,040	8,106	11,163	10,098	10,593	3,648
Deferred outflows:							
Refundings of debt	-	-	-	-	-	-	-
Total assets and deferred outflows	$ 8,596	$ 8,040	$ 8,106	$ 11,163	$ 10,098	$ 10,593	$ 3,648
Liabilities and Net Position							
Current liabilities:							
Accrued interest payable	$ 124	$ 35	$ 33	$ 50	$ 43	$ 44	$ 14
Accounts payable and other accrued expenses	-	-	1	-	-	-	-
Current portion of bonds payable	190	180	165	210	190	205	75
Total current liabilities	314	215	199	260	233	249	89
Noncurrent liabilities:							
Bonds payable	8,502	7,940	7,710	10,885	9,720	10,405	3,620
Accrued arbitrage rebate	-	-	-	-	-	-	-
Total noncurrent liabilities	8,502	7,940	7,710	10,885	9,720	10,405	3,620
Total liabilities	8,816	8,155	7,909	11,145	9,953	10,654	3,709
Net position restricted for debt service	(220)	(115)	197	18	145	(61)	(61)
Total liabilities and net position	$ 8,596	$ 8,040	$ 8,106	$ 11,163	$ 10,098	$ 10,593	$ 3,648

Statement of Net Position	Rental Housing Mortgage Programs							
Assets	2005 Series E, F	2007 Series A, B	2007 Series C, D	2008 Series A, B	2010 Series A, B	2012 Series A	2014 SF Living	Total Rental Housing Mortgage Programs
Current assets:								
Restricted cash and cash equivalents	$ 225	$ 90	$ 9	$ -	$ 10	$ 1	$ -	$ 1,550
Accrued interest receivable	48	24	155	-	4	11	6	516
Other current assets	-	-	-	-	-	-	-	-
Intra-entity receivable (payable)	-	-	(7)	-	1	-	-	(6)
Total current assets	273	114	157	-	15	12	6	2,060
Noncurrent assets:								
Restricted cash and cash equivalents	289	172	-	-	41	-	-	2,632
Note receivable	-	-	-	-	-	-	-	-
Restricted securitized mortgage loans, net:	-	-	-	-	-	-	-	-
Securitized mortgage loans, net cost	-	-	-	-	-	-	-	-
Unrealized gain securitized mortgage loans	-	-	-	-	-	-	-	-
Total restricted securitized mortgage loans, net	-	-	-	-	-	-	-	-
Restricted mortgage loans, net	11,098	5,244	13,192	8,520	858	4,924	2,516	102,983
Total noncurrent assets	11,387	5,416	13,192	8,520	899	4,924	2,516	105,615
Total assets	11,660	5,530	13,349	8,520	914	4,936	2,522	107,675
Deferred outflows:								
Refundings of debt	-	-	-	-	-	-	-	-
Total assets and deferred outflows	$ 11,660	$ 5,530	$ 13,349	$ 8,520	$ 914	$ 4,936	$ 2,522	$ 107,675
Liabilities and Net Position								
Current liabilities:								
Accrued interest payable	$ 47	$ 23	$ 155	$ -	$ 4	$ 11	$ 6	$ 589
Accounts payable and other accrued expenses	-	-	-	-	1	1	-	3
Current portion of bonds payable	225	90	160	-	10	57	-	1,757
Total current liabilities	272	113	315	-	15	69	6	2,349
Noncurrent liabilities:								
Bonds payable	11,499	5,373	13,032	8,520	842	4,867	2,516	105,431
Accrued arbitrage rebate	-	-	-	-	-	-	-	-
Total noncurrent liabilities	11,499	5,373	13,032	8,520	842	4,867	2,516	105,431
Total liabilities	11,771	5,486	13,347	8,520	857	4,936	2,522	107,780
Net position restricted for debt service	(111)	44	2	-	57	-	-	(105)
Total liabilities and net position	$ 11,660	$ 5,530	$ 13,349	$ 8,520	$ 914	$ 4,936	$ 2,522	$ 107,675

Note 18 – Segment Financial Information (continued)

September 30, 2015
(In Thousands)

Statements of Revenues, Expenses, and Changes in Net Position	Rental Housing Mortgage Programs 2002 Series A, B	2003 Series A, B	2004 Series A, B	2004 Series C, D	2004 Series F, G	2005 Series A, B	2005 Series C, D
Operating revenues:							
Interest on mortgage loans and securitized mortgage loans	$ 494	$ 419	$ 397	$ 582	$ 510	$ 535	$ 173
Interest on securities and temporary investments	18	15	20	27	19	28	-
Net increase (decrease) in fair value of investments	-	-	-	-	-	-	-
Loan and commitment fees	-	-	-	-	-	-	-
Administrative fees and other	-	-	-	-	-	-	-
Total operating revenues	512	434	417	609	529	563	173
Operating expenses:							
Interest expense	488	423	409	606	520	530	174
Bond issuance costs	-	-	-	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-	-	-	-
Administrative fees and other	81	79	2	(102)	(76)	266	(30)
Total operating expenses	569	502	411	504	444	796	144
Operating income (loss)	(57)	(68)	6	105	85	(233)	29
Other financing sources (uses) – operating transfers	-	-	-	-	-	-	-
Change in net position	(57)	(68)	6	105	85	(233)	29
Total net position – beginning (as restated)	(163)	(47)	191	(87)	60	172	(90)
Total net position – ending	$ (220)	$ (115)	$ 197	$ 18	$ 145	$ (61)	$ (61)
Condensed Statements of Cash Flows							
Net cash provided by (used in):							
Operating activities	$ 665	$ 582	$ 548	$ 783	$ 688	$ 724	$ 241
Noncapital financing activities	(680)	(594)	(564)	(802)	(701)	(725)	(246)
Investing activities	18	15	20	27	19	28	-
Net increase (decrease)	3	3	4	8	6	27	(5)
Cash and cash equivalents, beginning of year	576	405	457	540	494	662	165
Cash and cash equivalents, end of year	$ 579	$ 408	$ 461	$ 548	$ 500	$ 689	$ 160

Statements of Revenues, Expenses, and Changes in Net Position	Rental Housing Mortgage Programs 2005 Series E, F	2007 Series A, B	2007 Series C, D	2008 Series A, B	2010 Series A, B	2012 Series A	SF Living 2014	Total Rental Housing Mortgage Programs
Operating revenues:								
Interest on mortgage loans and securitized mortgage loans	$ 565	$ 284	$ 859	$ 6	$ 45	$ 251	$ 32	$ 5,152
Interest on securities and temporary investments	17	-	-	-	-	-	-	144
Net increase (decrease) in fair value of investments	-	-	-	-	-	-	-	-
Loan and commitment fees	-	-	-	-	-	-	-	-
Administrative fees and other	-	-	7	-	-	-	-	7
Total operating revenues	582	284	866	6	45	251	32	5,303
Operating expenses:								
Interest expense	572	284	859	6	45	251	32	5,199
Bond issuance costs	-	-	-	-	-	-	-	-
Provision (recovery) for loan losses	-	-	-	-	-	-	-	-
Administrative fees and other	(99)	2	2	-	-	-	-	125
Total operating expenses	473	286	861	6	45	251	32	5,324
Operating income (loss)	109	(2)	5	-	-	-	-	(21)
Other financing sources (uses) – operating transfers	-	-	-	-	-	-	-	-
Change in net position	109	(2)	5	-	-	-	-	(21)
Total net position – beginning	(220)	46	(3)	-	57	-	-	(84)
Total net position – ending	$ (111)	$ 44	$ 2	$ -	$ 57	$ -	$ -	$ (105)
Condensed Statements of Cash Flows								
Net cash provided by (used in):								
Operating activities	$ 777	$ 363	$ 1,016	$ 6	$ 55	$ 306	$ (2,490)	$ 4,264
Noncapital financing activities	(791)	(366)	(1,011)	(6)	(54)	(306)	2,490	(4,356)
Investing activities	17	-	-		-			144
Net increase (decrease)	3	(3)	5	-	1	-	-	52
Cash and cash equivalents, beginning of year	511	265	4	-	50	-	-	4,130
Cash and cash equivalents, end of year	$ 514	$ 262	$ 9	$ -	$ 51	$ -	$ -	$ 4,182

SINGLE AUDIT INFORMATION

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2016

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 Housing Choice Vouchers	14.195	NM800CC001	$ 28,820,886	$ 29,807,974	$ -	$ 29,807,974
Section 811	14.326	NM21RDD1301	-	27,099	-	27,099
Emergency Solutions Grants Program	14.231	S16-DC-35-0001	942,301	1,026,928	-	1,026,928
HOME Investment Partnerships Program	14.239	M-16-SG-35-0100	2,717,151	4,304,472	37,536,055	41,840,527
Housing Opportunities for People with AIDS	14.241	NMH016-F999	540,572	553,107		553,107
ARRA-Tax Credit Assistance Program	14.258	M-09-ES-35-0100	-	-	13,360,889	13,360,889
Neighborhood Stabilization Program						
pass-through State DFA (a Community Development Block/Grant Neighborhood Stabilization Program)	14.228	09-NSP-2-J-01	-	7,520	3,078,919	3,086,439
Total U.S. Department of Housing and Urban Development			33,020,910	35,727,100	53,975,863	89,702,963
US Department of Energy:						
Weatherization Assistance for Low-Income Persons	81.042	EE0006171	1,250,312	1,325,360	-	1,325,360
US Department of Health & Human Services pass-through from the NM Department of Human Services:						
Low Income Home Energy Assistance Program	93.568	17-630-9000-0003	2,547,829	2,633,418	-	2,633,418
Total Federal grants			36,819,051	39,685,878	53,975,863	93,661,741
Loan Guaranty Programs						
U.S. Department of Housing and Urban Development:						
Mortgage Insurance - Homes (FHA)	14.117	n/a	-	-	1,980,375	1,980,375
U.S. Department of Veterans Affairs:						
Veterans Housing-Guaranteed and Insured Loans	64.114	n/a	-	-	210,226	210,226
U.S. Department of Agriculture:						
Very Low to Moderate Income Housing Loans	10.410	n/a	-	-	351,776	351,776
Section 538 Rural Rental Housing Guaranteed Loans	10.438	n/a	-	-	1,042,403	1,042,403
U.S. Department of Housing and Urban Development:						
Housing Finance Agencies Risk Sharing Programs	14.188	n/a	-	382,500	88,433,349	88,815,849
Total loan guaranty programs			-	382,500	92,018,129	92,400,629
Total schedule of expenditures for federal awards			$ 36,819,051	$ 40,068,378	$ 145,993,992	$ 186,062,370

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.

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, 2016 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, 2016, the Authority recorded approximately $1,980,000 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 47 loans. HUD's assumed risk approximated $105,341,000 at September 30, 2016. Of the 47 loans closed, the Authority funded 37 loans with outstanding principal of $98,684,000 at September 30, 2016. HUD's assumed risk of loss of approximately $88,816,000 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, 2016, the loan had an outstanding principal of $1,158,000, of which the USDA assumed risk of loss of approximately $1,042,000 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 the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the New Mexico Mortgage Finance Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended September 30, 2016, and the related notes to the financial statements and have issued our report thereon dated December 13, 2016.

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 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 and therefore, 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.

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

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 or other matter that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-001.

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
December 13, 2016

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 the New Mexico Mortgage Finance Authority's, (the Authority), a component unit of the State of New Mexico, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016. 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.

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

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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-003 and 2016-004. 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 are described in the accompanying schedule of findings and questioned costs and/or correction action plan. 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 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.

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

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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-003, and 2016-004 that we consider to be significant deficiencies.

The Authority's response to the internal controls over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. 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
December 13, 2016

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 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 Programs

CFDA Numbers	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
14.239	HOME Investment Partnerships Program	Unmodified
14.258	ARRA-Tax Credit Assistance Program	Unmodified
93.568	Low Income Home Energy Assistance Programs	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 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 two inspection reports tested, we noted that the Authority could not provide the documentation that reports were submitted to HUD within 30 days of the completion of the field work. It does not appear that management has made any progress towards implementing the new policy and procedures as stated in last year's corrective action plan.

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 documentation is retained related to report submission.

Recommendation:
Management should follow the established policies and procedures in place 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. Management will revise the procedures so that in addition to HUD, the Director of Asset Management will also be copied on the e-mail when reports are issued to the owner/managing agent. This will ensure that a second person can validate the distribution immediately. In addition, the Asset Management Department will implement a quarterly quality control review of all reports issued and, among other things, will validate the appropriate distribution. Responsible Party: Deputy Director of Programs.

Section III – Federal Award Findings and Questioned Costs

2016-002 – HOME Investment Partnerships Program - Eligibility
Significant Deficiency in Internal Control and Noncompliance

Federal Agency*:* U.S. Department of Housing and Urban Development
Program Name: HOME Investment Partnerships Program
CFDA No. and Program Expenditures: 14.239 ($4,304,472)
Grant Numbers: M-16-SG-35-100
Fiscal Program Award Year Ended: 2016
Questioned Costs: None
Responsible Division: HOME Program Personnel

Criteria or specific requirement:
Per 24 CFR Section 92.203, "The participating jurisdiction must calculate the annual income of the family based on the actual income being received at the time the participating jurisdiction determines the family is income eligible, projected forward for the 12-month period. Annual income shall include income from all family members."

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.

Effect:
There is a risk that the New Mexico Mortgage Finance Authority (the Authority) could award federal assistance to applicants that are ineligible for participation in the program.

Cause:
The Authority did not have proper controls in place to ensure that the annual income determination included income from all family members.

Recommendation:
Management should established proper policies and procedures to ensure the Homeowner Rehabilitation household income determination is accurate prior to award of HOME funds.

Views of responsible officials and planned corrective actions
Management agrees. The Homeowner Verification Package completed prior to award of an activity will be revised to add a requirement for the Homeowner Income Verification supporting documents to include all adult members of the household and documentation in the form of a certification from all adult household members who have no income. In addition, a review of the Homeowner Verification Package will be conducted by the Program Manager and a second Quality Control Review person other than the Program Manager. Responsible Party: Deputy Director of Programs.

Section III – Federal Award Findings and Questioned Costs

2016-003 – HOME Investment Partnerships Program - Reporting
Significant Deficiency in Internal Control and Noncompliance

Federal Agency*:* U.S. Department of Housing and Urban Development
Program Name: HOME Investment Partnerships Program
CFDA No. and Program Expenditures: 14.239 ($4,304,472)
Grant Numbers: M-16-SG-35-100
Fiscal Program Award Year Ended: 2016
Questioned Costs: None
Responsible Division: HOME Program Personnel

Criteria or specific requirement:
The HOME reporting requirements state, "Each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of $200,000 in a program year, must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry (SPEARS) System (24 CFR sections 135.3(a)(1) and 135.90)."

Also, "Direct recipients of HUD funding that is subject to Section 3 requirements are required to submit Section 3 reports for each type of covered funds received annually during their reporting period. Also, they should submit Form HUD 60002 in accordance with the following:

a) If the program providing covered HUD funding requires annual performance report (i.e. CAPERS report, etc.), Form HUD 60002 is due and shall be submitted electronically at the same time the program performance report is due."

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.

Effect:
The required report was not submitted on a timely basis.

Cause:
The employee responsible for submitting the report failed to do so, and management failed to follow their established procedures which would have prevented the untimely submission.

Recommendation:
Management should follow the established policies and procedures in place to ensure the HUD 60002 Section 3 report is submitted at the same time the CAPERS annual performance report is due.

Section III – Federal Award Findings and Questioned Costs

2016-003 – (continued)

Views of responsible officials and planned corrective actions
Management agrees. SPEARS was required for the first time in FY2016. The SPEARS report will be added to the Report matrix used by the Community Development Department to validate compliance with reporting requirements. The Report matrix will be verified monthly to ensure all required reports are submitted timely. In addition, the due dates for all required reports will be ticketed for timely submission by the Director of Community Development as well as the responsible Program Manager. Responsible Party: Deputy Director of Programs.

2016-004 – HOME Investment Partnerships Program – Suspension and Debarment
Significant Deficiency in Internal Control and Noncompliance

Federal Agency*:* U.S. Department of Housing and Urban Development
Program Name: HOME Investment Partnerships Program
CFDA No. and Program Expenditures: 14.239 ($4,304,472)
Grant Numbers: M-16-SG-35-100
Fiscal Program Award Year Ended: 2016
Questioned Costs: None
Responsible Division: HOME Program Personnel

Criteria or specific requirement
2 CFR Part 200 Section 213, Suspension and debarment, states that, "Non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR Part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

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.

Effect:
There is a risk that the Authority could award federal assistance to applicants that are ineligible for participation in the program.

Section III – Federal Award Findings and Questioned Costs

2016-004 – (continued)

Cause:
The Authority did not ensure they maintained proper documentation relating to the excluded parties search results.

Recommendation:
Management should ensure that they maintain documentation of the excluded parties search results.

Views of responsible officials and planned corrective actions
Management agrees. The Authority will add the requirement to conduct the excluded parties search to the Affirmation of House by House Reservation Rehabilitation Program Eligible Partner Status form, as well as the Homeowner Verification Package, which is completed before awarding funds to an Activity. The results of the excluded parties search will be maintained in the subrecipient files. Responsible Party: Deputy Director of Programs.

FINDING 2015-001 – Risk Sharing Reporting Noncompliance

Condition:
For two of the twelve inspection reports tested, we noted that the Authority could not provide the documentation that reports were submitted to HUD within 30 days of the completion of the field work. These reports were sent to HUD after the auditor request to review these submissions were made. Also, one of the aforementioned inspection reports included a property with deficiencies for which the Authority did not notify the Commissioner in writing within 30 days of the completion of the field work.

Status:
This finding was repeated in the current year as Finding 2016-001.

Reason for Finding Recurrence:
The Authority did modify the process effective October 1, 2015 to copy HUD on the e-mail when reports are issued to the owner/managing agent. However, due to an oversight by the responsible person, the report was not submitted to HUD. The exception was not caught or remedied through the quality control process in place.

Plan of Action:
Management will revise the procedures so that in addition to HUD, the Director of Asset Management will also be copied on the e-mail when reports are issued to the owner/managing agent. This will ensure that a second person can validate the distribution immediately. In addition, the Asset Management Department will implement a quarterly quality control review of all reports issued and, among other things, will validate the appropriate distribution.

Person Responsible:
Deputy Director of Programs

OTHER REQUIRED SCHEDULES

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)
SCHEDULE OF VENDOR INFORMATION
September 30, 2016

RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	$ Amount of Awarded Contract	$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work
N/A	Competitive (RFP or RFB)	REDW LLC	Winner	N/A Hourly Rates	N/A	Albuquerque, NM	No	No	Internal Audit & Consulting Services
N/A	Competitive (RFP or RFB)	BOK Financial (Bank of Albuquerque)	Winner	N/A Rates per Bond Issue	N/A	Albuquerque, NM	Yes	No	Trustee and Paying Agent Services
N/A	Competitive (RFP or RFB)	BNY Mellon	Loser	$0.00	N/A	Los Angeles, CA	No	No	Trustee and Paying Agent Services
N/A	Competitive (RFP or RFB)	U.S. Bank, National Association	Loser	$0.00	N/A	Phoenix, AZ	No	No	Trustee and Paying Agent Services
N/A	Competitive (RFP or RFB)	Zions Bank	Loser	$0.00	N/A	Denver, CO	No	No	Trustee and Paying Agent Services
N/A	Competitive (RFP or RFB)	Wells Fargo Bank	Loser	$0.00	N/A	Minneapolis, MN	No	No	Trustee and Paying Agent Services
N/A	Competitive (RFP or RFB)	CSG Advisors	Winner	N/A Hourly and Fixed Rate based on service	N/A	Atlanta, GA	No	No	Financial Advisory Services
N/A	Sole Source	Idaho Housing Finance Association	Winner	N/A Volume and transaction fee structure	N/A	Boise, ID	No	No	Subservicing and Single Family Mortgage Program Support Services
N/A	Competitive (RFP or RFB)	Moss Adams LLP	Winner	$144,525.00	N/A	Albuquerque, NM	No	No	External Audit Services
N/A	Sole Source	Office of the State Auditor	Winner	$108,000.00	N/A	Santa Fe, NM	No	No	External Audit Services

An exit conference was conducted on December 13, 2016 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
Jay Czar	Executive Director
Gina Hickman	Deputy Director of Finance and Administration
Isidoro Hernandez	Deputy Director of Programs
Yvonne Segovia	Controller
Kathy Sysak-Keeler	Finance Manager
Rose Baca-Quesada	Director of Community Development
Moss Adams LLP:	
Laurie Tish	Partner
New Mexico Office of the State Auditor:	
Sanjay Bhakta	Deputy State Auditor
Anna Williams	Financial Audit Director
Shannon Sanders	Audit Manager
Andrew Gallegos	Audit Senior

OTHER REPORTING

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS 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

We have audited, 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, the financial statements of the business type activities of New Mexico Mortgage Finance Authority (the Authority), a component unit of the State of New Mexico, which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2016.

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
December 13, 2016

SUPPLEMENTAL INFORMATION

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)
COMPUTATION OF ADJUSTED NET WORTH IN ACCORDANCE WITH THE REQUIREMENTS OF THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
September 30, 2016

A.	ADJUSTED NET WORTH CALCULATIONS:		
	Total net position		$ 253,520,000
	Less:		
	Itemized unacceptable assets		
	1 Prepaid expenses	$ (156,000)	
	2 Other receivables	(2,472,000)	
	3 Real estate owned	(433,000)	
	4 Intangible assets	(395,000)	
	5 Unrealized gain on securitized mortgage loans and debt securities	(41,203,000)	
	Total unacceptable assets		(44,659,000)
	Adjusted net worth		$ 208,861,000
B.	REQUIRED NET WORTH CALCULATIONS:		
	Unpaid principal balance of pools (note: number of pools – 4)		$ 35,880,000
	Plus: Outstanding balance of commitments, authority issued and requested		$ -
	Total outstanding portfolio and authority		$ 35,880,000
	Required net worth		$ 2,625,580
C.	EXCESS (DEFICIT) NET WORTH: (Adjusted net worth - required net worth)		$ 206,235,420

INSTITUTION-WIDE CAPITAL REQUIREMENT CALCULATION

September 30, 2016

A. CAPITAL REQUIREMENT FOR DEPOSITORY INSTITUTIONS:		Not applicable
B. CAPITAL REQUIREMENT FOR NONDEPOSITORY INSTITUTIONS:		
Total adjusted net worth		$ 208,861,000
Total assets (excluding unacceptable assets)		$ 953,907,000
		Meets requirement? (yes/no)
Total adjusted net worth/total assets	22%	Yes

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)
LIQUID ASSET REQUIREMENT
September 30, 2016

A. REQUIRED NET WORTH		
		$ 2,625,580
Acceptable liquid assets:		
1 Unrestricted cash and cash equivalents	$ 33,636,000	
2 Restricted cash and cash equivalents	30,490,000	
Total liquid assets		$ 64,126,000
B. REQUIRED LIQUID ASSETS		
20% of required net worth		$ 525,116
Minimum Requirement		$ 1,000,000
Excess (deficit) liquid		63,126,000
Meets requirement		Yes

NEW MEXICO MORTGAGE FINANCE AUTHORITY
(A Component Unit of the State of New Mexico)
SCHEDULE OF INSURANCE – GNMA REQUIRED INSURANCE COVERAGE – ISSUER IDENTIFICATION NUMBER 3676
September 30, 2016

IDENTIFICATION OF AFFILIATED GNMA ISSUERS:	
Affiliated GNMA issuers	None
Affiliated issuers on same insurance policies	None
REQUIRED INSURANCE CALCULATION:	
Servicing portfolio:	
GNMA	$ 35,880,000
FNMA	17,855,000
Conventional (other)	183,784,000
GNMA subservicing	None
Total servicing portfolio	$ 237,519,000
Required fidelity bond coverage	$ 506,279
Required mortgage servicing errors and omissions coverage	$ 506,279
VERIFICATION OF INSURANCE COVERAGE:	
Fidelity bond coverage at September 30, 2016	$ 2,500,000
Mortgage servicing errors and omissions coverage at September 30, 2016	$ 2,000,000
EXCESS (DEFICIT) INSURANCE COVERAGE:	
Fidelity bond coverage	$ 1,993,721
Mortgage servicing errors and omissions coverage	$ 1,493,721
GNMA LOSS PAYABLE ENDORSEMENT:	
Fidelity bond coverage	Yes
Mortgage servicing errors and omissions coverage	Yes