NEW ISSUE – BOOK-ENTRY ONLY

Ratings: *Moody's: Aaa*
S & P: AAA
Fitch: AAA
(See "RATINGS" herein)

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004A-1 Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations. Also, in the opinion of such Special Tax Counsel to the NMFA, interest on the Taxable Series 2004A-2 Bonds is not excluded from gross income for federal income tax purposes. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2004A Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004A Bonds. See "TAX MATTERS" herein.

$43,400,000
NEW MEXICO FINANCE AUTHORITY
Public Project Revolving Fund
Revenue Bonds
Series 2004A
($28,410,000 Series 2004A-1)
($14,990,000 Taxable Series 2004A-2)

Dated: Delivery Date **Due:** June 1, as shown on inside cover

The New Mexico Finance Authority's Public Project Revolving Fund Revenue Bonds, Series 2004A-1 and Taxable Series 2004A-2 (collectively, the "Series 2004A Bonds"), are being issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Depository Trust Company will act as securities depository for all of the Series 2004A Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each series and maturity of the Series 2004A Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2004A Bonds will be made in book-entry form only, and beneficial owners of the Series 2004A Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Series 2004A Bonds.

The Series 2004A Bonds will be issued under and secured by a General Indenture of Trust and Pledge dated as of June 1, 1995, as previously amended and supplemented, and as amended and supplemented by a Fifty-Eighth Supplemental Indenture of Trust, dated as of January 1, 2004 (collectively, the "Indenture"), between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as Trustee (the "Trustee"). Interest on the Series 2004A Bonds is payable on June 1 and December 1 of each year, commencing on June 1, 2004, as more fully described herein. Principal of the Series 2004A Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedule set forth on the inside front cover.

SEE MATURITY SCHEDULE
ON INSIDE FRONT COVER

The Series 2004A Bonds are subject to redemption prior to maturity as more fully described herein.

The Series 2004A Bonds are being issued by the NMFA to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities (the "2004A Governmental Units") for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004A Bonds. The principal of, premium, if any, and interest on the Series 2004A Bonds are payable solely from and secured solely by the Trust Estate, which includes the NMFA Portion of the Governmental Gross Receipts Tax, certain amounts payable pursuant to agreements between the NMFA and 2004A Governmental Units heretofore and hereafter entering into agreements with the NMFA and certain moneys in funds and accounts described herein. Parity bonds have heretofore been issued and may hereafter be issued pursuant to the Indenture with a lien on the Trust Estate on a parity with the lien of the Series 2004A Bonds.

THE SERIES 2004A BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE NMFA PAYABLE, TOGETHER WITH ADDITIONAL BONDS HERETOFORE OR HEREAFTER ISSUED, SOLELY FROM AND SECURED SOLELY BY THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. THE SERIES 2004A BONDS DO NOT CONSTITUTE OR CREATE A GENERAL OBLIGATION OR OTHER INDEBTEDNESS OF THE STATE OF NEW MEXICO OR ANY GOVERNMENTAL UNIT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE NMFA HAS NO TAXING POWERS. THE PRINCIPAL OF AND INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2004A BONDS DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY ON THE PART OF THE MEMBERS, DIRECTORS AND OFFICERS OF THE NMFA. NO BREACH OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF THE NMFA WILL IMPOSE A PECUNIARY LIABILITY OR A CHARGE UPON THE GENERAL CREDIT OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE.

Payment of scheduled principal and interest on the Series 2004A Bonds will be insured pursuant to a financial guaranty insurance policy to be issued concurrently with the issuance of the Series 2004A Bonds by MBIA Insurance Corporation.

MBIA

The NMFA has undertaken, for the benefit of owners of the Series 2004A Bonds, to provide certain annual and periodic disclosure as described herein under the caption "CONTINUING DISCLOSURE UNDERTAKING".

Certain legal matters will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2004A Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on for the NMFA by the Office of the Attorney General of the State of New Mexico or by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA and for the Underwriters by Hughes & Strumor Ltd., Co., Albuquerque, New Mexico. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2004A Bonds. It is expected that a single certificate for each maturity of each series of the Series 2004A Bonds will be delivered to DTC or its agent on or about January 28, 2004. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2004A Bonds.

RBC Dain Rauscher

Piper Jaffray & Co. **Banc Of America Securities LLC**

Dated: January 16, 2004

Maturity Schedule

$43,400,000

New Mexico Finance Authority
Public Project Revolving Fund
Revenue Bonds, Series 2004A

$28,410,000 Series 2004A-1

Year (June 1)	Principal Amount	Interest Rate	Price	CUSIP Numbers
2004	$ 800,000	1.125%	100.000%	64711MTD9
2005	1,735,000	1.000%	99.668%	64711MTE7
2006	2,075,000	1.350%	99.495%	64711MTF4
2007	2,100,000	1.700%	99.483%	64711MTG2
2008	2,190,000	2.100%	99.669%	64711MTH0
2009	2,120,000	2.300%	99.152%	64711MTJ6
2010	2,080,000	2.600%	99.188%	64711MTK3
2011	2,140,000	2.800%	98.688%	64711MTL1
2012	2,340,000	3.050%	98.690%	64711MTM9
2013	2,260,000	3.250%	98.726%	64711MTN7
2014	1,980,000	3.350%	98.023%	64711MTP2
2015	1,805,000	3.550%	98.435%	64711MTQ0

$3,115,000 Series 2004A-1 Term Bond due June 1, 2018 bearing interest at 3.90% Price 98.483%
CUSIP Number 64711MTR8

$1,285,000 Series 2004A-1 Term Bond due June 1, 2022 bearing interest at 4.25% Price 97.996%
CUSIP Number 64711MTS6

$385,000 Series 2004A-1 Term Bond due June 1, 2031 bearing interest at 4.625% Price 98.392%
CUSIP Number 64711MTT4

Maturity Schedule

$43,400,000

New Mexico Finance Authority
Public Project Revolving Fund
Revenue Bonds, Series 2004A

$14,990,000 Taxable Series 2004A-2

Year (June 1)	Principal Amount	Interest Rate	Price	CUSIP Numbers
2004	$495,000	1.200%	99.982%	64711MTU1
2005	385,000	1.650%	99.867%	64711MTV9
2006	390,000	2.400%	99.704%	64711MTW7
2007	405,000	2.750%	99.271%	64711MTX5
2008	410,000	3.300%	99.396%	64711MTY3
2009	420,000	3.600%	99.467%	64711MTZ0
2010	440,000	4.125%	99.526%	64711MUA3
2011	455,000	4.400%	99.128%	64711MUB1
2012	475,000	4.625%	99.005%	64711MUC9
2013	500,000	4.875%	99.143%	64711MUD7
2014	525,000	5.000%	99.673%	64711MUE5

$3,065,000 Series 2004A-2 Term Bond due June 1, 2019 bearing interest at 5.250% Price 98.441%
CUSIP Number 64711MUK1

$7,025,000 Series 2004A-2 Term Bond due June 1, 2027 bearing interest at 5.875% Price 98.678%
CUSIP Number 64711MUT2

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No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the Series 2004A Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information contained in this Official Statement has been obtained from the NMFA, certain Governmental Units, the Series 2004A Bond Insurer and other sources that are believed by the NMFA to be reliable. The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, any Governmental Unit, the Series 2004A Bond Insurer, or others since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Series 2004A Bonds have not been registered under the Securities Act of 1933, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such Acts. The registration and qualification of the Series 2004A Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2004A Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the Series 2004A Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement contains statements relating to the NMFA's and certain Governmental Units' future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

NEW MEXICO FINANCE AUTHORITY
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Santa Fe, New Mexico

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Western Financial Group, LLC
Lake Oswego, Oregon

Bond Counsel

Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

Special Tax Counsel

Ballard Spahr Andrews & Ingersoll, LLP
Salt Lake City, Utah

Disclosure Counsel
Brownstein Hyatt & Farber, P.C.
Albuquerque, New Mexico

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($14,990,000 Taxable Series 2004A-2)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the offer and sale of the Public Project Revolving Fund Revenue Bonds, Series 2004A-1 (the "Series 2004A-1 Bonds") and Taxable Series 2004A-2 ("Series 2004A-2 Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2004A-1 Bonds and the Series 2004A-2 Bonds are collectively referred to herein as the "Series 2004A Bonds." The Series 2004A Bonds, together with additional bonds heretofore or hereafter issued on parity therewith, are collectively referred to herein as the "Bonds." Capitalized terms used herein and not defined have the meanings specified in the General Indenture of Trust and Pledge dated as of June 1, 1995, as heretofore supplemented and amended (the "General Indenture"), between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee (the "Trustee"), and as further supplemented and amended by the Fifty-Eighth Supplemental Indenture of Trust dated as of January 1, 2004 (the "Supplemental Indenture") between the NMFA and the Trustee and are set forth under "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – CERTAIN DEFINITIONS" in Appendix B hereto. The General Indenture and the Supplemental Indenture are collectively referred to herein as the "Indenture." See "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B hereto.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2004A Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State of New Mexico (the "State") in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of state and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations. The NMFA voluntarily conducts its financing of state-level projects in coordination with the Governor's Finance Council. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY" herein and the financial statements included as Appendix A hereto.

Purposes of the Series 2004A Bonds; The 2004A Governmental Units; Other Governmental Units

Proceeds from the sale of the Series 2004A Bonds will be used to reimburse the NMFA for loans made by the NMFA from its public project revolving fund (the "2004A Loans") to certain Governmental Units (the "2004A Governmental Units") identified under the caption "THE PLAN OF FINANCING – Governmental Units and the 2004A Projects" herein. The 2004A Loans provided funds to the 2004A Governmental Units to pay for all or a portion of the costs of certain projects (the "2004A Projects"), as more fully described herein. For certain information concerning the 2004A Governmental Units and the respective 2004A Projects, see "THE PLAN OF FINANCING – Governmental Units and the 2004A Projects" herein. The 2004A Governmental Units have each executed an individual loan agreement or issued securities for each project (the "2004A Loan Agreements"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS." The 2004A Loan Agreements, together with loan agreements, grant agreements and securities relating to parity bonds heretofore or hereafter issued, are referred to herein as the "Loan Agreements." The 2004A Governmental Units together with other governmental units heretofore or hereafter entering into Loan Agreements are herein collectively referred to as "Governmental Units."

Proceeds will also be used to provide funding for the payment of costs of issuance of the Series 2004A Bonds.

Parity Bonds

Bonds with a lien on the Trust Estate on a parity with the lien thereon of the Series 2004A Bonds have been issued previously and may be issued in the future to provide loans and grants to and to purchase securities from certain other Governmental Units. For a description of the parity bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS - Outstanding Parity Bonds."

Authority for Issuance

The Series 2004A Bonds are being issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq*., NMSA 1978, as amended (the "Act"), and the Indenture. For a description of the Public Project Revolving Fund Program, see "NEW MEXICO FINANCE AUTHORITY – Public Project Revolving Fund Program" herein.

Terms of the Series 2004A Bonds

Payments

The Series 2004A Bonds will be dated the Delivery Date. Interest on the Series 2004A Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2004. The Series 2004A Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity) and will bear the interest rates shown on the inside front cover hereof.

Denominations

The Series 2004A Bonds are issuable in denominations of $5,000 or integral multiples thereof.

Book-Entry System

Individual purchases will be made in book-entry form only, and purchasers of the Series 2004A Bonds will not receive physical delivery of bond certificates except as more fully described herein. Payments of principal of and interest on the Series 2004A Bonds will be made directly to The Depository Trust Company ("DTC") or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Upon receipt of such payments, DTC is to remit such payments to the DTC Participants (as hereinafter defined) for subsequent disbursement to the beneficial owners of the Series 2004A Bonds, all as more fully described in "BOOK-ENTRY ONLY SYSTEM" in Appendix F. In reading this Official Statement, it should be understood that while the Series 2004A Bonds are in book-entry only form, references in other sections of this Official Statement to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the Series 2004A Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system as described more fully herein, and (ii) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the Series 2004A Bonds

The Series 2004A Bonds are subject to redemption prior to maturity. See "THE SERIES 2004A BONDS – Redemption of the Series 2004A Bonds."

Security and Sources of Payment for the Series 2004A Bonds

Special, Limited Obligations

The Series 2004A Bonds are special, limited obligations of the NMFA payable solely from the Trust Estate, which includes the Revenues described below and certain funds and accounts created and maintained pursuant to the Indenture. The Series 2004A Bonds do not constitute or create a general obligation or other indebtedness of the State or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004A Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Special, Limited Obligations."

Revenues

Revenues are defined by the General Indenture to mean: (i) all revenues received or earned by the NMFA from or attributable to the Loan Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned on and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund). All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Loan Agreement, provided, however, that all earnings received on the Governmental Units' Accounts will be allocated solely to the benefit of such Governmental Unit. For a description of the Loan Agreements, the NMFA Portion of the Governmental Gross Receipts Tax and the Additional Pledged Loans, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Revenues." For a description of the funds and accounts created by the Indenture see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Flow of Funds." See also "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B.

Additional Bonds

The NMFA maintains an ongoing program to provide loans and to purchase securities from Governmental Units and expects to finance those activities with the issuance of Additional Bonds on a parity with the Series 2004A Bonds. The timing, amount and other details of such parity bonds are not known as of the date of this Official Statement.

The NMFA must meet certain requirements prior to the issuance of Additional Bonds or other obligations with a lien on the Trust Estate on a parity with the lien of the Series 2004A Bonds. For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Additional Bonds." For a discussion of the outstanding parity bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Outstanding Parity Bonds." The NMFA may not issue bonds or other indebtedness payable with a priority senior to the lien on the Trust Estate of the Series 2004A Bonds without the written consent of 100% of the owners of Outstanding Series 2004A Bonds. The NMFA has issued, and may in the future issue, indebtedness having a lien on the Trust Estate subordinate to that of the Series 2004A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Outstanding Subordinate Debt."

Bond Insurance

Payment of scheduled principal and interest on the Series 2004A Bonds will be insured pursuant to a financial guaranty insurance policy to be issued concurrently with the issuance of the Series 2004A Bonds by MBIA Insurance Corporation.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Bond Owners that, so long as the Series 2004A Bonds remain outstanding, the NMFA will provide certain annual financial information with respect to the NMFA and any Governmental Unit whose repayment obligations to the NMFA will represent more than 5% of the estimated annual Revenues for any year during which the Series 2004A Bonds are outstanding to each nationally recognized municipal securities information repository and notice of certain material events to the Municipal Securities Rulemaking Board (the "MSRB") in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in "CONTINUING DISCLOSURE UNDERTAKING" herein.

The NMFA believes that it is in compliance with its current continuing disclosure undertakings.

Tax Considerations

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004A-1 Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, interest on the Taxable Series 2004A-2 Bonds is <u>not</u> excluded from gross income for federal income tax purposes.

In the opinion of such Special Tax Counsel, under existing laws of the State of New Mexico as currently enacted and construed, interest on the Series 2004A Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes.

Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004A Bonds.

The form of opinion to be delivered by Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, is included in Appendix E hereto. For a discussion of such opinion and certain other tax consequences incident to the ownership of the Series 2004A Bonds, see "TAX MATTERS" herein.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2004A Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion included in Appendix E hereto and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under "TAX MATTERS" and also included in Appendix E hereto. Certain legal matters relating to the Series 2004A Bonds will be passed upon for the Underwriters by their counsel, Hughes & Strumor Ltd., Co., Albuquerque, New Mexico Certain legal matters will be passed upon for the NMFA by the Office of the Attorney General for the State of New Mexico or by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA. See "LEGAL MATTERS" herein. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2004A Bonds. See "EXPERTS" herein.

The NMFA's financial statements for the Fiscal Year ended June 30, 2003, included in Appendix A hereto, have been audited by Neff & Ricci, LLP, certified public accountants, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS" herein.

Offering and Delivery of the Series 2004A Bonds

The Series 2004A Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate for each series and maturity of the Series 2004A Bonds will be delivered to DTC or its agent on or about January 28, 2004.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2004A Bonds.

THE SERIES 2004A BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2004A Bonds. Other information describing the Series 2004A Bonds appears elsewhere in this Official Statement. This summary and such other information should be read together and are qualified in their entirety by reference to the Indenture and the Series 2004A Bonds. For a description of certain provisions of the Indenture, see "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B. Copies of the approved forms of the Indenture are available as provided in "ADDITIONAL INFORMATION" herein.

The Series 2004A Bonds are being issued pursuant to the Act, the Indenture, and a bond authorizing resolution adopted by the NMFA on November 25, 2003, and supplemented by a sale resolution adopted on January 16, 2004. The Series 2004A Bonds are being issued to reimburse the NMFA for loans made to the 2004A Governmental Units as more particularly described herein as part of the NMFA's Public Project Revolving Fund Program. For a description of such program, see "NEW MEXICO FINANCE AUTHORITY – Public Project Revolving Fund Program" herein. See also "THE PLAN OF FINANCING – Sources and Uses of Funds."

Description of the Series 2004A Bonds

The Series 2004A Bonds will be dated as of the Delivery Date. Interest on the Series 2004A Bonds will accrue from the Delivery Date of the Series 2004A Bonds at the rates set forth on the inside front cover page of this Official Statement (calculated on the basis of the 360-day year consisting of twelve 30-day months), and is payable on June 1 and December 1 of each year, commencing June 1, 2004. The Series 2004A Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front cover (unless redeemed prior to maturity). The Series 2004A Bonds are issuable in denominations of $5,000 or integral multiples thereof (the "Authorized Denominations").

Book-Entry Only System

The Depository Trust Company will act as securities depository for all of the Series 2004A Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount and maturity of each series of the Series 2004A Bonds will be registered in the name of Cede & Co. Individual purchases of

Series 2004A Bonds will be made in book-entry form only, and beneficial owners of the Series 2004A Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payment to DTC participants for subsequent disbursement to the beneficial owners of the Series 2004A Bonds. For a more complete description of the book-entry only system, see "BOOK-ENTRY ONLY SYSTEM" in Appendix F.

Redemption of the Series 2004A Bonds

Generally

The Series 2004A Bonds are subject to optional redemption, mandatory sinking fund redemption and mandatory redemption prior to maturity as set forth below.

Optional Redemption by the NMFA

The Series 2004A Bonds maturing on or after June 1, 2015 are subject to optional redemption at any time on and after June 1, 2014, in whole or in part, in such order of maturity as may be selected by the NMFA and by lot within each maturity (if in part, in integral multiples of $5,000), at the option of the NMFA, upon notice as provided in the Indenture and at the redemption price of 100% of the principal amount of the Series 2004A Bonds to be redeemed, plus accrued interest to the redemption date, but without premium.

Mandatory Redemption upon Prepayment under Loan Agreements

If a 2004A Governmental Unit whose Project was financed by the Series 2004A Bonds makes a Prepayment in whole or in part under its Loan Agreement, the Series 2004A Bonds which financed such 2004A Governmental Unit's 2004A Project are subject to mandatory redemption, in whole or in part, on any date on or after the date on which the Prepayment is made, in an amount equal to the Principal Component of the Prepayment, at a redemption price of 100% of the principal amount of the Series 2004A Bonds to be redeemed plus accrued interest to the redemption date without premium. A Governmental Unit whose Project was financed by the Series 2004A Bonds will have the option to make a Prepayment resulting in such special optional redemption at such redemption price at any time. The maturity dates of the Series 2004A Bonds to be redeemed will correspond to the principal amounts and due dates of the Principal Component of such Prepayment. The Series 2004A Bonds to be redeemed are to be selected by lot in such manner as the Trustee deems appropriate.

The NMFA will recalculate the respective Loan Payments due under any Loan Agreement in the case of a partial Prepayment of Loan Payments under such Loan Agreement in a manner which is consistent with the manner in which the Series 2004A Bonds are redeemed. For a listing of the Projects financed by the Series 2004A Bonds, see "THE PLAN OF FINANCING – Governmental Units and 2004A Projects" herein.

Historical Mandatory Redemptions

In calendar year 1999, the NMFA received one Prepayment under the Indenture in the amount of $485,000. In calendar year 2000, the NMFA received no Prepayments under the Indenture. In calendar year 2001, the NMFA received three Prepayments under the Indenture in the aggregate amount of $30,000. In calendar year 2002, the NMFA received eight Prepayments under the Indenture in the aggregate amount of $7,770,000. In calendar year 2003, the NMFA received 13 Prepayments under the Indenture in the aggregate amount of $9,673,000. Prepayments in past calendar years are not an indication of prepayments to be received by the NMFA in future calendar years.

Mandatory Sinking Fund Redemption of the Series 2004A-1 Term Bonds

The Series 2004A-1 Bonds maturing June 1, 2018 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to 100% of the principal amount of each Series 2004A-1 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed
2016	$2,050,000
2017	655,000
2018+	410,000+

+Final Maturity

The Series 2004A-1 Bonds maturing June 1, 2022 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to 100% of the principal amount of each Series 2004A-1 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed
2019	$360,000
2020	375,000
2021	390,000
2022+	160,000+

+Final Maturity

The Series 2004A-1 Bonds maturing June 1, 2031 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to 100% of the principal amount of each Series 2004A-1 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed
2023	$170,000
2024	25,000
2025	25,000
2026	25,000
2027	25,000
2028	25,000
2029	30,000
2030	30,000
2031+	30,000

+Final Maturity

If less than all of the Series 2004A-1 Bonds maturing on June 1, 2018, 2022 and 2031 then outstanding are redeemed in a manner other than pursuant to a mandatory sinking fund redemption, the principal amount so redeemed is to be credited at 100% of the principal amount thereof by the Trustee against the obligation of the NMFA as follows: (i) if the Series 2004A-1 Bonds are redeemed upon a Prepayment of all or a portion of a Loan Agreement, to the redemption requirements corresponding to the due dates of the Principal Component of such Prepayments and (ii) if the Series 2004A-1 Bonds are redeemed in any other manner, on the next mandatory sinking fund redemption date for the respective maturity and any excess is to be credited against future mandatory sinking fund redemption obligations in chronological order.

Mandatory Sinking Fund Redemption of the Series 2004A-2 Term Bonds

The Series 2004A-2 Bonds maturing June 1, 2019 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to 100% of the principal amount of each Series 2004A-2 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed
2015	$550,000
2016	580,000
2017	610,000
2018	645,000
2019+	680,000+

+Final Maturity

The Series 2004A-2 Bonds maturing June 1, 2027 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to 100% of the principal amount of each Series 2004A-2 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed
2020	$ 720,000
2021	760,000
2022	805,000
2023	840,000
2024	890,000
2025	950,000
2026	1,000,000
2027+	1,060,000+

+Final Maturity

If less than all of the Series 2004A-2 Bonds maturing on June 1, 2019 and 2027 then outstanding are redeemed in a manner other than pursuant to a mandatory sinking fund redemption, the principal amount so redeemed is to be credited at 100% of the principal amount thereof by the Trustee against the obligation of the NMFA as follows: (i) if the Series 2004A-2 Bonds are redeemed upon a Prepayment of all or a portion of a Loan Agreement, to the redemption requirements corresponding to the due dates of the Principal Component of such Prepayments and (ii) if the Series 2004A-2 Bonds are redeemed in any other manner, on the next mandatory sinking fund redemption date for the respective maturity and any excess is to be credited against future mandatory sinking fund redemption obligations in chronological order.

Notice of Redemption

In the event any of the Series 2004A Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Registered Owners of Series 2004A Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days, but not more than 60 days, prior to the date fixed for redemption.

In addition, further notice of any redemption of Series 2004A Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Registered Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Series 2004A Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the Series 2004A Bonds. Failure to give all or any portion of such further notice will not in any manner defeat the effectiveness of a call for redemption.

If at the time of mailing of any notice of redemption there are not on deposit with the Trustee moneys sufficient to redeem all the Series 2004A Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Registered Owners of Series 2004A Bonds or portions thereof redeemed but who failed to deliver Series 2004A Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Series 2004A Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Registered Owners will not affect the validity of the proceedings for the redemption of the Series 2004A Bonds.

Partially Redeemed Series 2004A Bonds

In case any Series 2004A Bond is redeemed in part, upon the presentation of such Series 2004A Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the NMFA, a Series 2004A Bond or Series 2004A Bonds of the same series, interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Series 2004A Bond. A portion of any Series 2004A Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or an integral multiple thereof and, in selecting portions of such Series 2004A Bonds for redemption, the Trustee will treat each such Series 2004A Bond as representing that number of Series 2004A Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Series 2004A Bonds by $5,000.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS

Special, Limited Obligations

The Series 2004A Bonds are special, limited obligations of the NMFA payable solely from the Revenues, proceeds of the Series 2004A Bonds (until used as provided in the Indenture) and other moneys held in certain funds and accounts held by the Trustee under the Indenture (the "Trust Estate"). The Series 2004A Bonds do not constitute nor create a general obligation or other indebtedness of the State or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004A Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Revenues

Generally

Revenues include (i) all revenues received or earned by the NMFA from or attributable to the Loan Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund). All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Loan Agreement, provided, however, that all earnings received on the Governmental Units' Accounts will be allocated solely to the benefit of such Governmental Unit. As discussed under "Flow of Funds" below, revenues received from a Governmental Unit by the Trustee on behalf of the NMFA pursuant to a Loan Agreement are deposited in a separate account of the Debt Service Fund established for that Governmental Unit and are periodically transferred by the Trustee to the Bond Fund and used to make debt service payments on the Bonds. All revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax and from any Additional Pledged Loans are transferred to the Trustee and deposited in the Revenue Fund. Moneys in the Revenue Fund are used each Bond Fund Year to pay debt service on the Bonds to the extent that moneys in the several accounts of the Debt Service Fund are insufficient and to pay debt service on the portions of the Bonds used to finance grants. At the end of each Bond Fund Year moneys in the Revenue Fund in excess of the requirements for such moneys under the Indenture are transferred to the NMFA and deposited in the Subordinate Lien PPRF Revenue Fund. These monies are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Revenues are deposited, see "Flow of Funds" below under this caption, and "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE-Funds and Accounts" in Appendix B hereto. For a more complete description of the Subordinate Lien PPRF Revenue Fund see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Outstanding Subordinate Debt" herein.

The Agreements and the Agreement Pledged Revenues

Generally. The Agreements consist of Loan Agreements and Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of their respective projects by the NMFA. (Under the Indenture "Agreements" also includes Grant Agreements, however the Grant Agreements contain no repayment provisions.) Under each Loan Agreement or issue of Securities, the respective Governmental Unit pledges to the NMFA for payment of all amounts due under their respective Agreements (i) revenues of specific enterprise systems or revenues attributable to certain taxes (such pledged revenues the "Agreement Pledged Revenues") and (ii) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to promptly pay principal of and interest on its loan from its Agreement Pledged Revenues and to continue such payments until its loan is paid in full.

Agreement Reserve Fund. Pursuant to the Indenture, an Agreement Reserve Fund has been created which will be held by the Trustee. Within such fund currently are accounts relating to those Governmental Units having a repayment obligation to the NMFA pursuant to a Loan Agreement or Securities for which the NMFA determined to require such accounts. Amounts in a Governmental Unit's account of the Agreement Reserve Fund will be withdrawn by the Trustee and deposited into that Governmental Unit's account of the Debt Service Fund to the extent of any shortfall in payments by such Governmental Unit under its Loan Agreement or Securities and any associated Additional Pledged Loans. **Amounts in a Governmental Unit's account of the Agreement Reserve Fund will not be used to cover shortfalls in payments of other Governmental Units and will not otherwise be available to defray deficiencies in the Bond Fund.** See "PLAN OF FINANCING – Sources and Uses of Funds" herein and "Flow of Funds" below under this caption.

Agreements with Governmental Units. Each Governmental Unit which has entered into a Loan Agreement (or has issued Securities) has pledged specific Agreement Pledged Revenues to the repayment of its Loan. Financial information and operating data for the City of Albuquerque, New Mexico, the only Governmental Unit whose loan repayment obligation constitutes more than 5% of the estimated annual Revenues in any year when the Series 2004A Bonds are Outstanding, is set forth in Appendix D. Financial information and operating data are not set forth for any other Governmental Unit.

No Obligation of Governmental Units to Cover Shortfalls. A Governmental Unit is not required to make up any Loan Payment not paid in full by another Governmental Unit or to make up any insufficiency in the NMFA Portion of the Governmental Gross Receipts Tax.

The Governmental Gross Receipts Tax

Generally. Pursuant to Section 7-1-6.38, NMSA 1978, the NMFA is allocated 75% of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. For purposes of this Official Statement, the 75% net receipts which is allocated to the NMFA is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Indenture, the NMFA Portion of the Governmental Gross Receipts Tax will be paid when received by NMFA to the Trustee and will be accounted for and maintained by the Trustee in the Revenue Fund created under the Indenture within the Public Project Revolving

Fund and are available (i) to pay debt service on the Bonds to the extent Loan Payments paid by the Governmental Units pursuant to the Agreements are not sufficient to pay debt service when due and (ii) to pay debt service on the portions of the Bonds issued to fund Grants. See "Flow of Funds" under this caption for additional information on the use of moneys in the Revenue Fund. Under the Indenture, payments attributable to Additional Pledged Loans, if any, will be paid by the NMFA to the Trustee prior to each Interest Payment Date. See "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Exhibit B for certain information concerning the Revenue Fund and allocation of amounts therein to payment of principal and interest on the Bonds.

Pursuant to Section 7-9-4.3, NMSA 1978, the governmental gross receipts tax is imposed on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State of New Mexico, except school districts and certain health care entities.

Governmental gross receipts are defined in Section 7-9-3.2, NMSA 1978, as all receipts of the State of New Mexico or any agency, institution, instrumentality or public subdivision thereof except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services, from:

(a) the sale of tangible personal property other than water from facilities open to the general public;

(b) the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public;

(c) refuse collection, refuse disposal or both;

(d) sewage services; and

(e) the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State of New Mexico.

The definition of governmental gross receipts includes receipts from the sale of tangible personal property handled on consignment when sold from facilities open to the general public, but excludes cash discounts taken and allowed, governmental gross receipts tax payable on transactions reportable for the period and any type of time-price differential.

The governmental gross receipts tax was enacted into law and first imposed in 1991. It is imposed at a rate of 5% on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State of New Mexico, except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services. In addition, the governmental gross receipts tax is not imposed on: (i) receipts from transactions involving tangible personal property or services on which the gross receipts tax, compensating tax, motor vehicle excise tax, gasoline tax, special fuel tax, special fuel excise tax, oil and gas emergency school tax, resources tax, processors tax, service tax, or the excise tax imposed under Section 66-12-6.1, NMSA 1978, is imposed; (ii) receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision or on receipts from operation of a cable television system owned or operated by a municipality, because those receipts are subject to the regular gross receipts tax under Section 7-9-13, NMSA 1978; (iii) receipts from selling livestock and receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, unprocessed agricultural products, hides or pelts; or (iv) receipts from selling tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products, services, or activities sold at, related to or occurring at a minor league baseball stadium on which a stadium surcharge is imposed pursuant to the Minor League Baseball Stadium Funding Act.

Deductions from the governmental gross receipts tax include: (i) certain receipts from selling tangible personal property to the United States or the State of New Mexico or any governmental unit or subdivision, agency, department or instrumentality thereof, (ii) receipts from selling tangible personal property to an Indian tribe, nation or pueblo or any governmental subdivision, agency, department or instrumentality thereof for use on Indian reservations or pueblo grants; (iii) certain receipts from the sale of tangible personal property to a person engaged in the business of manufacturing if the sale is made to a person who delivers a non-taxable transaction certificate to the seller; (iv) receipts from transactions in interstate commerce; (v) receipts from selling tangible personal property, licenses or a service for resale if the sale is made to a person who delivers a nontaxable transaction certificate to the seller; (vi) certain receipts from selling tangible personal property to entities exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended or renumbered, if the sale is made to an organization that delivers a nontaxable transaction certificate to the seller; (vii) refunds and allowances made to buyers or amounts written off the books as an uncollectible debt by a person reporting governmental gross receipts tax on an accrual basis; (viii) certain receipts from selling prosthetic devices if the sale is made to a person who is licensed to practice medicine, osteopathic medicine, dentistry, podiatry, optometry, chiropractic or professional nursing and who delivers a nontaxable transaction certificate to the seller; and (ix) receipts from the sale of prescription drugs.

Collection and Distribution Information. Governmental agencies are treated as taxpayers under the provisions of the Tax Administration Act, Section 7-1-1, *et seq.*, NMSA 1978, and are responsible for paying the governmental gross receipts tax to the New Mexico Taxation and Revenue Department in accordance with the State's Tax Administration Act. Collections are first deposited into a tax administration suspense fund for the purpose of making disbursements for refunds, among other things. On the last day of each month, the balance in the suspense fund is identified by tax source and distributed to the appropriate municipalities or state agencies, including the NMFA. Collection of governmental gross receipts tax is administered by the New Mexico Taxation and Revenue Department. Governmental gross receipts taxes are to be paid on or before the 25th day of the month following the month in which the taxable event occurs.

Set forth below is information from the New Mexico Taxation and Revenue Department concerning collections of the governmental gross receipts tax for the fiscal years 1998-1999 through 2002-2003. There can be no assurance that governmental gross receipts tax collections will continue to grow at historical rates or otherwise.

GOVERNMENTAL GROSS RECEIPTS TAXES COLLECTIONS
Fiscal Years 1997 - 1998 through 2001 - 2002

	Fiscal Year 1998-1999	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002	Fiscal Year 2002-2003
Total Net Receipts	$16,897,029	$19,372,893	$20,994,555	$20,616,433	$22,908,393
NMFA Portion of the Governmental Gross Receipts Tax	$12,672,772(1)	$14,529,670	$15,745,916	$15,462,325(2)	$17,181,295

(1) The actual taxes collected for the NMFA by the New Mexico Taxation and Revenue Department were approximately $1.2 million higher than reported in the audited financial statements for the 1998-1999 fiscal year. The audited financial statements do not include this higher amount because this additional amount was not received by the NMFA within 60 days of its year end, and therefore not included as revenue in accordance with Generally Accepted Accounting Principles.

(2) The NMFA believes that the decrease in governmental gross receipts tax collections in fiscal year 2001-2002 is attributable to operational changes at the University of New Mexico. See footnote (1) to the following chart entitled "Eight Largest Payers of Governmental Gross Receipts Taxes Fiscal Years 1999-2000 through 2001-2002."

Set forth below is information concerning the top eight payers of the governmental gross receipts tax for fiscal years 2000-2001 through 2002-2003. Such information is not publicly available from the State and has instead been obtained from each individual entity, and the NMFA does not guaranty the accuracy of any such information.

Eight Largest Payers of
Governmental Gross Receipts Taxes
Fiscal Years 2000-2001 through 2002-2003

	Fiscal Year 2000-2001		Fiscal Year 2001-2002		Fiscal Year 2002-2003	
Entity	Amount Paid	% of Total GGRT of All Entities in NM	Amount Paid	% of Total GGRT of All Entities in NM	Amount Paid	% of Total GGRT of All Entities in NM
City of Albuquerque	$7,292,312	34.73%	$7,349,606	33.60%	$7,615,404	36.42%
City of Santa Fe	1,623,829	7.73%	1,716,437	7.85%	2,020,181	9.66%
University of New Mexico	1,535,237	7.31%	1,128,122[(1)]	5.16%	1,055,148	5.05%
City of Las Cruces	911,589	4.34%	936,567	4,27%	993,204	4.75%
City of Farmington	662,617	3.16%	691,010	3.16%	742,103	3.55%
City of Rio Rancho	612,096	2.92%	682,333	3.12%	718,317	3.44%
City of Roswell	530,539	2.53%	534,160	2.44%	517,194	2.47%
County of Los Alamos	372,289	1.77%	389,243	1.78%	439,554	2.10%
City of Gallup	N/A	N/A	344,436	1.53%	323,236	1.55%
Total	$13,540,508	64.49%	$13,761,914	62.91%	$14,424,343	68.99%

(1) The University of New Mexico believes that a substantial portion of the decrease in governmental gross receipts tax collections in fiscal year 2001-2002 is attributable to 1) the outsourcing of vending services to a non-governmental entity which is not required to pay governmental gross receipts tax and 2) the restriction of access to its bookstore to enrolled students during certain time periods.

Source: Individual entities.

Additional Pledged Loans

The NMFA may make loans from or purchase securities with available funds in the Public Project Revolving Fund. At its option, the NMFA may designate such loans or securities as Additional Pledged Loans (as hereinafter defined), and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds. See "Flow of Funds," below under this caption.

Flow of Funds

The Indenture creates a Revenue Fund, a Bond Fund, a Debt Service Fund with separate accounts for each Governmental Unit receiving a Loan, and an Agreement Reserve Fund with a separate account, if required, for each Governmental Unit receiving a Loan that has a reserve requirement. The repayment obligations of those Governmental Units receiving Additional Pledged Loans who have also entered into Loan Agreements with or issued Securities purchased by the NMFA, payable from the same revenue source, are on parity with amounts due with respect to such Loan Agreements or Securities.

Flow of Funds Under General Indenture

All Loan Payments and other amounts paid by Governmental Units pursuant to the Loan Agreements and Securities are to be paid directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less an administrative fee of up to 0.25% retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date, and the Trustee is to deposit all such payments immediately upon receipt thereof, as follows:

First: to the related Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan.

Second: to the related Account, if any, in the Agreement Reserve Fund to the extent necessary to cause the balance in said Account to equal the Agreement Reserve Requirement, if any, of such Account.

On the fifth day preceding a Loan Payment Date (or, if such fifth day is not a Business Day, on the Business Day next preceding such fifth day), if the amount on deposit in any Governmental Unit's Account of the Debt Service Fund is insufficient for payments coming due under the related Loan Agreement or Securities on the next Loan Payment Date, the Trustee is to transfer from the related Agreement Reserve Account, if any, to that Governmental Unit's Account of the Debt Service Fund, an amount sufficient, together with amounts in such Debt Service Account, to pay the Principal Component and the Interest Component due under such Loan Agreement or Securities on such Loan Payment Date.

On each Interest Payment Date for the Bonds, the Trustee is to transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay the interest on the related Bonds becoming due on such Interest Payment Date and to pay the principal of each related Bond due at maturity or by prior redemption, to the extent amounts are on deposit therein for such purpose. At least once each year, the Trustee shall determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, and (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, if any, and (i) will return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit, (ii) will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement or (iii) in certain cases, will deposit any excess attributable to the difference in interest rates on such Governmental Unit's Loan and the related Series of Bonds into the Revenue Fund.

The above provisions, with respect to the flow of funds, do not apply to moneys provided pursuant to the 2000A Loan Agreement. For a description of the flow of funds with respect to the 2000A Loan Agreement, see "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – Application of Loan Payments" in Appendix B.

Revenue Fund

During each Bond Fund Year, all Revenues constituting receipts from the NMFA Portion of the Governmental Gross Receipts Tax and principal and interest payments from Additional Pledged Loans are to be paid by the NMFA to the Trustee prior to each Interest Payment Date and shall be accounted for and maintained by the Trustee in the Revenue Fund. On each Interest Payment Date, the Trustee (except as otherwise provided in a Supplemental Indenture) is to transfer from the Revenue Fund (including any amounts in the separate account described in the next paragraph) to the Bond Fund (i) an amount equal to the principal and interest due on such Interest Payment Date on the portion of any Bonds, the proceeds of which were used to make Grants and (ii) if the amounts on deposit in the Bond Fund are insufficient for payments coming due with respect to the Bonds on such Interest Payment Date, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal and interest due on the Bonds on such Interest Payment Date.

At the conclusion of each Bond Fund Year, the Trustee is to retain in the Revenue Fund, in a separate account to be created therein (to the extent of amounts remaining in the Revenue Fund), the following:

(i) an amount equal to any deficiency in any account in the Agreement Reserve Fund;

(ii) with respect to Agreements for which (A) no Agreement Reserve Account was created in the Agreement Reserve Fund and (B) a default in the payment of principal or interest under such Agreement has occurred and is continuing, an amount equal to the least of (x) 10% of the proceeds of such Agreement, (y) maximum annual debt service on such Agreement and (z) 1.25 times average annual debt service on such Agreement; and

(iii) with respect to Bonds issued to finance Grants and for which no other debt service reserve fund has been created, an amount equal to the least of (A) 5% of the proceeds of the Bonds issued to finance such Grant, (B) one-half of maximum annual debt service on the Bonds issued to finance such Grants and (C) .625 times average annual debt service on the Bonds issued to finance such Grant.

Pursuant to the Indenture, the NMFA is not required to contribute any amounts to fund the retention described in the preceding paragraph other than from amounts on deposit in the Revenue Fund at the end of each Bond Fund Year, and no default under the Indenture occurs solely by reason of any insufficiency of funds remaining in the Revenue Fund to fund such retention.

After making the foregoing deposits, at the conclusion of each Bond Fund Year, and after making the payments required by the Indenture during such Bond Fund Year, the Trustee is to transfer the balance on deposit in the Revenue Fund to the NMFA for deposit into the Subordinate Lien Revenue Fund. After the monies have been used for the purposes specified in the Subordinated General Indenture (hereinafter defined), the NMFA may use any remaining monies for:

(i) Public Project Revolving Fund purposes;

(ii) redemption of Bonds prior to maturity by depositing the same into the Bond Fund;

(iii) refinancing, refunding, purchasing or advance refunding of any Bonds; or

(iv) any other lawful purpose.

The balance so transferred to the Subordinate Lien Revenue Fund is no longer pledged to the payment of debt service on the Bonds.

Additional Bonds

Generally

Additional Bonds or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued or incurred, only if certain requirements have been met, including the following:

(a) NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are set forth under "Cash Flow Statement," below.

(b) All payments required by the Indenture to be made into the Bond Fund must have been made in full.

(c) The proceeds of the Additional Bonds or other indebtedness, bonds or notes must be used (i) to refund Bonds issued under the Indenture or other obligations of the NMFA (including the funding of necessary reserves and the payment of costs of issuance) or (ii) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance).

(d) No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds or other indebtedness, bonds or notes if (i) the issuance of such Additional Bonds or other indebtedness, bonds or notes otherwise complies with the requirements of the Indenture and (ii) such Event of Default will cease to continue upon the issuance of the Additional Bonds or other indebtedness, bonds or notes and the application of the proceeds thereof.

Any of the foregoing requirements may be revised or deleted with written evidence from the Rating Agency to the effect that such revision or deletion will not result in the rating on the Outstanding Bonds being lowered.

Cash Flow Statement

Pursuant to the Indenture, "Cash Flow Statement" means a certificate of the NMFA:

(a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate, the following:

    (1) the amount of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

    (2) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

    (3) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding; and

(b) showing that in each such Bond Fund Year the aggregate of the amount set forth in clause (1) above divided by 1.35, plus the aggregate amount set forth in clause (2) above, exceeds 100% of the aggregate of the amounts set forth in clause (3) above. For purposes of the foregoing, the following assumptions apply:

    (i) The NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12 month period during the 24 months next preceding the delivery of the Cash Flow Statement;

    (ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

    (iii) Loans and Additional Pledged Loans will be assumed to remain in their current category designations throughout the period projected in the Cash Flow Statement.

For purposes of the Indenture and the Cash Flow Statement, "Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
Category I	100%
Category II	80%
Category III	50%
Category IV	0%

Category I Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the third highest full rating category or higher by the Rating Agency.

Category II Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

Category III Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

Category IV Loans and Additional Pledged Loans are all Non-Performing Loans and Additional Pledged Loans, Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been replenished in accordance with the related Agreement, and Loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

"Non-Performing Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a covenant default) or under which a delinquency exists in payments of principal or interest thereunder.

"Rating Agency" means Moody's Investors Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

Pursuant to the Indenture, at the time of issuance of each series of Bonds, each of the Agreements executed in connection with such issuance is required to be submitted to the Rating Agency for assignment of a designation or rating or shall be designated in Category IV by the NMFA without submission to the Rating Agency. In addition, each Additional Pledged Loan is required to be submitted to the Rating Agency for assignment of a designation or a rating or shall be designated in Category IV by NMFA without submission to the Rating Agency. At any time (including upon issuance of Additional Bonds), the category assigned to an Agreement or to Additional Pledged Loans may be revised by the Rating Agency.

Of the Agreements submitted to the Rating Agency to date (excluding the 2004A Loan Agreements), $90.6 million have been designated Category I, $77.8 million have been designated Category II and $5.5 million have been designated Category III.

The formula described above may also be summarized as follows (where A = NMFA Portion of Governmental Gross Receipts Tax, B = Assumed Repayments of Loans and Additional Pledged Loans and C = Aggregate Annual Debt Service on all Bonds Outstanding):

$$(A \div 1.35) + B > C$$

No Senior Lien Obligation

No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Revenues for payment of the Bonds will be created or incurred without the prior written consent of the Owners of 100% of the Outstanding Bonds.

Planned Amendment of General Indenture

The NMFA plans to amend and restate the General Indenture in the near future. Such amendment would, among other things, permit the NMFA to issue variable rate bonds and enter into interest rate swaps and other investment vehicles. The NMFA will not need to obtain bondholder consent for such modifications.

Outstanding Parity Bonds

The following series of Public Project Revolving Fund Revenue Bonds are currently outstanding under the Indenture (the "Outstanding Parity Bonds").

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of January 15, 2004
1995	$41,230,000	$1,880,000
1996 A & B	21,125,000	2,245,000
1997	8,585,000	6,645,000
1999A	13,135,000	10,080,000
1999B	3,025,000	1,865,000
Taxable 1999C	2,265,000	1,510,000
Taxable 1999D	4,875,000	3,575,000
2000A	4,715,000	3,270,000
2000B	7,670,000	6,815,000
2000C	28,850,000	11,555,000
2002A	55,610,000	45,595,000
2003A	39,945,000	37,527,000
2003B	25,370,000	25,370,000
TOTAL	$256,400,000	$157,932,000

See "ANNUAL DEBT SERVICE REQUIREMENTS AND COVERAGE RATIOS" for Debt Service Requirements on the Outstanding Parity Bonds and aggregate payments under Agreements relating to the Bonds. See "THE PLAN OF FINANCING – Governmental Units and the 2004A Projects" for a listing of the ten Governmental Units comprising the highest percentage of estimated annual revenues.

Outstanding Subordinate Debt

The NMFA has also issued its $24,900,000 Court Facilities Fee Revenue Bonds, Series 2002, $21,600,000 Court Facilities Fee Revenue Bonds, Series 2001A and $11,400,000 Taxable Court Facilities Fee Revenue Bonds, Series 2001B (collectively, the "Court Facilities Fee Revenue Bonds"), secured by (i) a portion of certain docketing fees and costs imposed and collected by certain courts in the State, certain fees and assessments collected in connection with motor vehicle and other violations, and certain parking fees, rents and other charges collected by the Bernalillo County Metropolitan Court from tenants and users of the parking facility after deduction of certain costs associated therewith which moneys are to be deposited in the Court Facilities Fund and (ii) amounts on deposit in the Subordinate Lien PPRF Revenue Fund, created pursuant to the Subordinated General Indenture of Trust and Pledge dated as of August 1, 2001 as supplemented by a First Supplemental Indenture dated as of August 1, 2001 and a Second Supplemental Indenture of Trust dated as of September 1, 2002 (collectively, the "Subordinated General Indenture"), between the NMFA and Bank of Albuquerque, N.A., as successor trustee.

The Subordinate Lien PPRF Revenues consists of those monies released to the NMFA from the Revenue Fund created pursuant to the Indenture on June 1 of each year. Pursuant to the Subordinated General Indenture, all such released moneys are to be deposited into the Subordinate Lien PPRF Revenue Fund created by the Subordinated General Indenture and are included in Subordinate Lien PPRF Revenues. Moneys in the Subordinate Lien PPRF Revenue Fund are available to pay on a parity basis debt service on Subordinate PPRF Bonds issued pursuant to the Subordinated General Indenture and on other obligations issued or incurred payable from and constituting a lien upon the Subordinate Lien PPRF Revenues (the "PPRF Secured Obligations"). The Court Facilities Fee Revenue Bonds are PPRF Secured Obligations. The NMFA may also issue additional bonds under the Subordinated General Indenture. The timing, amount and other details of any additional subordinate bonds have not been determined.

Supplemental Indentures and Amendments to Loan Agreements; Rating Agency Discretion

Pursuant to the Indenture, the NMFA and the Trustee may, without the consent of or notice to any of the Owners of the Bonds, enter into an indenture or indentures supplemental to the Indenture in order to make certain amendments or changes to the Indenture, including any amendment with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds, following such amendment, being lower than the rating on the Bonds immediately prior to such amendment. See "APPENDIX B – EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

In addition, the NMFA with the consent of the Trustee and the related Governmental Unit may, without the consent of any Owners of the Bonds, amend any Agreement including any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; or to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of the Series 2004A Bond Insurance Policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the NMFA to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2004A Bonds as such payments become due but will not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy will be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2004A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at the time be payable with respect to any Series 2004A Bond. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2004A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against non payment of principal or of interest on the Series 2004A Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2004A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series 2004A Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2004A Bonds or presentment of such other proof of ownership of the Series 2004A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2004A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2004A Bonds in any legal proceeding related to payment of insured amounts on the Series 2004A Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association will disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2004A Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under this heading. Additionally, MBIA makes no representation regarding the Series 2004A Bonds or the advisability of investing in the Series 2004A Bonds.

The Series 2004A Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for year ended December 31, 2002.

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 2004A Bonds offered hereby will be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, will be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003), are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003, MBIA had admitted assets of $9.9 billion (unaudited), total liabilities of $6.4 billion (unaudited), and total capital and surplus of $3.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's rates the financial strength of MBIA "Aaa."

Standard & Poor's rates the financial strength of MBIA "AAA."

Fitch rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2004A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2004A Bonds. MBIA does not guaranty the market price of the Series 2004A Bonds nor does it guaranty that the ratings on the Series 2004A Bonds will not be revised or withdrawn.

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THE PLAN OF FINANCING

Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2004A Bonds are set forth in the following tables.

Sources and Uses of Funds

SOURCES:	
Series 2004A-1 Bond Par Amount	$14,990,000.00
Series 2004A-2 Bond Par Amount	28,410,000.00
NMFA Contribution	411,505.00
Debt Service Reserve From NMFA Loan	344,625.98
TOTAL SOURCES:	$44,146,130.98
USES:	
NMFA Reimbursement for 2004A Loans[1]	$42,586,940.10
Costs of Issuance[2]	754,382.00
Original Issue Discount	470,182.90
Debt Service Reserve Fund Funded	344,625.98
TOTAL USES:	$44,146,130.98

[1] The Series 2004A Bond Proceeds will be paid to the NMFA to reimburse the Public Project Revolving Fund for advances already made by the NMFA to certain 2004A Governmental Units. Advances made to the Program Fund have been or will be used to pay all or a portion of the costs of the 2004A Projects.

[2] Includes legal and accounting fees, financial advisory fees, printing, rating fees, Underwriters' discount, insurance premium and other miscellaneous costs. See "UNDERWRITING" herein.

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Governmental Units and 2004A Projects

Governmental Units

The following table lists the 2004A Governmental Units which received advances from the NMFA out of the Public Project Revolving Fund for the financing of their respective 2004A Projects which advances will be reimbursed, in whole or in part, from the proceeds of the Series 2004A Bonds:

The 2004A Governmental Units and the 2004A Projects

Series 2004A-1 Bonds

Governmental Unit	Project	Allocable Portion to be Financed with 2004A Bonds Proceeds
City of Tucumcari	Police Department Building	$535,000[1]
Chaves County	Fire District #8 Fire Station Construction	100,000
San Miguel County	Conchas Dam Fire District – Fire Pumper Truck Vehicle	150,000
City of Las Vegas	Police Vehicle Acquisition	165,000[1]
Cuba Independent School District	GO School Building Bonds	790,000
Espanola Public School District No. 45	GO School Building Bonds	4,745,000
Ft. Sumner Municipal School District No. 20	GO School Building Bonds	490,000
Hagerman Municipal School District No. 6	GO School Building Bonds	175,000
Tucumcari Municipal School District No. 1	GO School Building Bonds	525,000
Bloomfield School District No. 6	GO School Building Bonds	2,960,000
City of Las Cruces	Pump Station Well 46	130,000[1]
City of Las Cruces	Pump Station Well 46	50,000
Santa Fe County	GO Bond Refunding	2,280,000
Dexter Consolidated Schools	Lease Certificates of Participation	210,000
Village of Logan	Pumper Fire Truck	100,000
Mora County	Ocate Ojo Feliz Fire District - Pumper Fire Truck	50,000
Taos County	GRT Refunding	1,805,000[1]
Town of Red River	Refurbish Two Fire Vehicles	155,000[1]
Village of Cimarron	Fire Pumper Truck Project	100,000
County of Otero	Two Road Graders	375,000[1]
City of Texico	Fire Pumper Truck	125,000
Taos County	Solid Waste Equipment	245,000[1]
Hidalgo County	Gila - Neblett Fire District - Tanker Fire Truck	40,000
Town of Silver City	Wastewater System Lines	165,000
Town of Silver City	Wastewater System Lines	190,000
Village of Ruidoso	Class A Fire Pumper Truck	130,000
San Miguel County	Remodel of Courthouse	2,055,000[1]
City of Grants #1	Miscellaneous GRT Refunding	1,445,000[1]
City of Grants #2	Water and Sewer Refunding	1,050,000[1]
Carrizozo School District	GO School Building Bonds	75,000
City of Gallup	GO Refunding and Improvement Bonds	7,000,000
TOTAL		$28,410,000

Series 2004A-2 Bonds

City of Albuquerque	Baseball Stadium Construction Loan	$ 8,580,000
City of Albuquerque	Baseball Stadium Construction Loan	6,300,000
Sierra Vista Utilidades Coop.	Water Storage Tank Construction	110,000[1]
TOTAL		$14,990,000

(1) Certain 2004A Loan Agreements have Agreement Reserve Accounts funded with loan proceeds or equity contributions from the applicable 2004A Governmental Units in the aggregate amount of $818,806.98.

Generally

The following table lists the ten Governmental Units comprising the highest percentage of estimated annual Revenues that have entered into Agreements with the NMFA for Projects that have been financed with Bonds.

Currently Outstanding Obligations of the Ten Governmental Units Comprising the Highest Percentage of Estimated Annual Pledged Revenues

Borrower	FY 2004 Debt Service	% of FY 2003 Pledged Revenues	Final Maturity
City of Albuquerque	$2,366,534	5.89%	2027
Energy, Minerals and Natural Resources Department	1,992,361	4.96%	2023
City of Santa Fe	1,526,687	3.80%	2010
NW Solid Waste	862,487	2.15%	2018
Eddy County	848,247	2.11%	2007
Santa Fe County	703,299	1.75%	2009
Valencia County	692,848	1.72%	2010
City of Las Vegas	605,022	1.51%	2015
Cibola County	572,500	1.43%	2032
Roosevelt County	565,958	1.41%	2020

Source: New Mexico Finance Authority.

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ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service (excluding any mandatory prior redemption from prepayments on loans) payable for the Series 2004A Bonds for each fiscal year through their final maturity date.

Debt Service for the Series 2004A Bonds

Fiscal Year	Principal [1]	Interest[2]	Annual Debt Service Requirements
2004	$ 1,295,000.00	$ 512,207.74	$ 1,812,207.74
2005	2,120,000.00	1,498,838.80	3,618,838.80
2006	2,465,000.00	1,475,136.30	3,940,136.30
2007	2,505,000.00	1,437,763.80	3,942,763.80
2008	2,600,000.00	1,390,926.30	3,990,926.30
2009	2,540,000.00	1,331,406.30	3,871,406.30
2010	2,520,000.00	1,267,526.30	3,787,526.30
2011	2,595,000.00	1,195,296.30	3,790,296.30
2012	2,815,000.00	1,115,356.30	3,930,356.30
2013	2,760,000.00	1,022,017.56	3,782,017.56
2014	2,505,000.00	924,192.54	3,429,192.54
2015	2,355,000.00	831,612.54	3,186,612.54
2016	2,630,000.00	738,660.04	3,368,660.04
2017	1,265,000.00	628,260.04	1,893,260.04
2018	1,055,000.00	570,690.04	1,625,690.04
2019	1,040,000.00	520,837.54	1,560,837.54
2020	1,095,000.00	469,837.54	1,564,837.54
2021	1,150,000.00	411,600.04	1,561,600.04
2022	965,000.00	350,375.04	1,315,375.04
2023	1,010,000.00	296,281.30	1,306,281.30
2024	915,000.00	239,068.76	1,154,068.76
2025	975,000.00	185,625.02	1,160,625.02
2026	1,025,000.00	128,656.28	1,153,656.28
2027	1,085,000.00	68,750.02	1,153,750.02
2028[3]	25,000.00	5,318.76	30,318.76
2029[3]	30,000.00	4,162.50	34,162.50
2030[3]	30,000.00	2,775.00	32,775.00
2031[3]	30,000.00	1,387.50	31,387.50
TOTAL	$43,400,000.00	$18,629,566.20	$62,029,566.20

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(1) Payable on June 1 of each year. Includes mandatory sinking fund payments.
(2) Estimated. Payable on June 1 and December 1, commencing June 1, 2004.
(3) Associated only with the portion of the 2004A loan to the City of Tucumcari to be financed with the 2004A Bonds.

Source: Western Financial Group, LLC.

The following table shows estimated available Revenues, total debt service requirements for the Series 2004A Bonds and the Outstanding Parity Bonds and the resulting estimated annual coverage ratios. See "THE PLAN OF FINANCING – Sources and Uses of Funds."

Projected Annual Debt Service Requirements and Coverage Ratios

Fiscal Year	Governmental Gross Receipts Tax [1]	Aggregate Pledged Borrower Payments [2] [3]	Estimated Total Revenues	Total Debt Service Requirements for the 2004A Bonds [4]	Total Debt Service Requirements for the Outstanding Parity Bonds[5]	Total Debt Service Requirements for the 2004A and Outstanding Parity Bonds	Estimated Annual Coverage Ratios [6]
2004	$17,181,295	$22,989,170	$40,170,465	$1,812,208	$18,077,042	$19,889,249	2.02
2005	17,181,295	27,238,930	44,420,225	3,618,839	17,632,727	21,251,565	2.09
2006	17,181,295	25,643,882	42,825,177	3,940,136	17,491,217	21,431,353	2.00
2007	17,181,295	25,065,023	42,246,318	3,942,764	17,251,779	21,194,543	1.99
2008	17,181,295	23,798,399	40,979,694	3,990,926	16,340,127	20,331,053	2.02
2009	17,181,295	22,393,433	39,574,728	3,871,406	15,676,209	19,547,615	2.02
2010	17,181,295	21,697,285	38,878,580	3,787,526	13,958,779	17,746,305	2.19
2011	17,181,295	21,475,583	38,656,878	3,790,296	15,101,844	18,892,140	2.05
2012	17,181,295	19,850,059	37,031,354	3,930,356	13,245,726	17,176,082	2.16
2013	17,181,295	19,196,935	36,378,230	3,782,018	11,037,797	14,819,814	2.45
2014	17,181,295	16,851,668	34,032,963	3,429,193	10,390,547	13,819,739	2.46
2015	17,181,295	17,445,564	34,626,859	3,186,613	10,815,519	14,002,132	2.47
2016	17,181,295	15,319,299	32,500,594	3,368,660	8,037,004	11,405,664	2.85
2017	17,181,295	12,752,382	29,933,677	1,893,260	6,001,856	7,895,116	3.79
2018	17,181,295	10,249,502	27,430,797	1,625,690	5,095,174	6,720,864	4.08
2019	17,181,295	8,534,698	25,715,993	1,560,838	3,930,579	5,491,417	4.68
2020	17,181,295	8,255,898	25,437,193	1,564,838	4,193,429	5,758,267	4.42
2021	17,181,295	6,653,884	23,835,179	1,561,600	2,646,682	4,208,282	5.66
2022	17,181,295	6,138,052	23,319,347	1,315,375	2,159,037	3,474,412	6.71
2023	17,181,295	5,681,469	22,862,764	1,306,281	2,113,383	3,419,664	6.69
2024	17,181,295	3,862,016	21,043,311	1,154,069	2,116,371	3,270,440	6.43
2025	17,181,295	1,728,000	18,909,295	1,160,625	927,585	2,088,210	9.06
2026	17,181,295	1,756,649	18,937,944	1,153,656	928,338	2,081,994	9.10
2027	17,181,295	1,448,218	18,629,513	1,153,750	594,343	1,748,093	10.66
2028	17,181,295	896,420	18,077,715	30,319	515,255	545,574	33.14
2029	17,181,295	898,316	18,079,611	34,163	516,875	551,038	32.81
2030	17,181,295	900,317	18,081,612	32,775	518,498	551,273	32.80
2031	17,181,295	620,665	17,801,960	31,388	519,075	550,463	32.34
2032	17,181,295	578,905	17,760,200	-	520,608	520,608	34.11

(1) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS-Revenues-The Governmental Gross Receipts Tax." Future collections of the NMFA Portion of the Governmental Gross Receipts Tax are based on fiscal year 2002-2003 collections provided by the NMFA and are subject to change.

(2) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS-Revenues-The Agreements and the Agreement Pledged Revenues." Includes Agreements entered into in connection with the Outstanding Parity Bonds.

(3) The City of Santa Fe advance refunded its Loan and will prepay its obligations in full on the optional redemption date in Fiscal Year 2005. The calculations in this column do not include Prepayment of Loan by City of Santa Fe in Fiscal Year 2005.

(4) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS-Revenues-Additional Pledged Loans." Includes outstanding Additional Pledged Loans.

(5) Includes debt service on both the Series 2004A-1 Bonds and the Series 2004A-2 Bonds.

(6) Does not include the NMFA's Court Facilities Fee Revenue Bonds.

(7) The Estimated Annual Coverage Ratios are calculated using fiscal year 2002-2003 governmental gross receipts tax collections provided by the NMFA, assuming that no additional Parity Bonds will be issued by the NMFA, and are subject to change.

Source: New Mexico Finance Authority.

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NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, and governmental instrumentality of the State. It was created in 1992 pursuant to the New Mexico Finance Authority Act (the "NMFA Act") for the purpose of coordinating the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the NMFA Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is governed by a board of directors and currently employs 22 persons.

Powers

Pursuant to the NMFA Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers: to sue or be sued; to adopt, subject to the review and approval of the NMFA oversight committee, such regulations as are necessary and appropriate to implement the provisions of the NMFA Act; to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the NMFA Act; to acquire, construct, hold, improve, mortgage, sell, lease, convey or dispose of real and personal property for its public purposes; to make loans and purchase securities and contract to make loans and purchase securities; to make grants from the Water and Wastewater Project Grant Fund and Water and Wastewater Planning Fund to qualified entities to finance public projects; to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance; to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA; and to borrow money and to issue bonds.

Organization and Governance

The NMFA's governing body, the Board of Directors of the NMFA, is composed of the 12 members of the NMFA, seven of which are ex-officio members designated in the NMFA Act and five of which are appointed by the Governor with the advice and consent of the State senate. The seven designated members include five ex-officio State officials, of which four are cabinet-level secretaries (the secretary of finance and administration, the secretary of economic development, the secretary of energy, minerals and natural resources, and the secretary of environment), and one is a State agency official (the State investment officer), and two are the chief executives of state-wide associations (the executive director of the New Mexico Municipal League and the executive director of the New Mexico Association of Counties). One of the five members appointed by the Governor must be the chief financial officer of a State higher educational institution and the remaining four members appointed by the Governor are members of the public. Each of the appointed members of the NMFA serve staggered four-year terms, so that the term of at least one member expires on January 1 of each year. Vacancies are filled by appointment for the remainder of the unexpired term. Any member is eligible for reappointment.

The NMFA Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it: meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the Act and to review and approve regulations proposed for adoption; monitors and provides assistance and advice on the public project financing program of the NMFA; oversees and monitors State and local government capital planning and financing; provides advice and assistance to the NMFA and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects; undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the legislature. The report and proposed legislation is required to be made available on or before December 15 each year.

The Governor's Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003, to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. Although the NMFA is a governmental instrumentality separate from the State and not legally an "executive agency," the NMFA voluntarily participates in the Governor's Finance Council in order to meet the goals of Executive Order No. 2003-017 and the goals of the NMFA.

Governing Body and Staff Members

Current members of the Board of Directors of the NMFA, and their respective occupations, are set out below:

Name	Occupation	Term Expires
Gary Bland (1)	State Investment Officer, State Investment Council	not applicable
Ron Curry (1)	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance (2) (Chairman)	Owner/CEO, The Flance Company	12/31/05
William Fulginiti (1) (Vice-Chairman)	Director, New Mexico Municipal League	not applicable
Randy Harris (2)	President and CEO, Bank of Clovis	12/31/04
Rick Homans (1)	Secretary, Economic Development Department, State of New Mexico	not applicable
James Jimenez (1)	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
James L. McDonough (2)	Chief Financial Officer, New Mexico State University	12/31/07
Samuel O. Montoya (1) (Secretary)	Executive Director, New Mexico Association of Counties	not applicable
Joanna Prukop (1)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves (2)	President, First National Bank of New Mexico	01/01/08
John Carey (2)	President and CEO Association of Commerce and Industry	01/01/08

(1) Ex-Officio Member.

(2) Appointed by the Governor of the State.

Set out below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2004A Bonds and the administration of the NMFA's financing programs.

David W. Harris, Executive Director. Mr. Harris assumed the Executive Director's role in May, 2003 after completing a one-year assignment with Governor Bill Richardson, first as a Fiscal Policy Analyst in the Governor's campaign and later as Deputy Chief of Staff in the Governor's Office. Prior to that, Harris completed a twenty-seven year career of public service in New Mexico primarily concentrated in management and public finance. Mr. Harris is the only New Mexican to have served as director of the Legislative Finance Committee and as Secretary of the Department of Finance and Administration. Mr. Harris earned a BBA from Eastern New Mexico University and is a lifelong resident of New Mexico. Of note, Mr. Harris is a recipient of the New Mexico Distinguished Public Service Award and the Outstanding Alumnus Award from his alma mater.

Keith H. Mellor, Chief Financial Officer. Mr. Mellor joined the NMFA in November 1995. Before coming to the NMFA Mr. Mellor was controller for the Los Alamos Credit Union. He brings with him an extensive background in controllership, investment portfolio management, governmental auditing and accounting. His responsibilities include design, implementation, and maintenance of financial controls, reporting systems and investment strategies. Prior to serving at the Los Alamos Credit Union, Mr. Mellor was CFO/Controller for CNS, Inc., a systems engineering and integration firm. Mr. Mellor holds B. S. in accounting from Metro State College, Denver, Colorado. He holds a Certified Public Accountant's license in the State of Colorado.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 15 years of experience in the financial services industry in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax exempt hospital bonds. Ms. Russel earned her bachelor's degree from Marquette University, Milwaukee, Wisconsin.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

The Public Project Revolving Fund Program

The Public Project Revolving Fund Program of the NMFA is authorized by the NMFA Act and was created to fulfill the duty of the NMFA to develop and administer a program to assist qualified entities, individually or jointly, in financing all types of projects of a long-term capital nature, including but not limited to buildings and furnishings, water systems, water rights, sewerage and waste disposal systems, solid waste disposal systems, land, streets, airports, municipal utilities, parking facilities and capital equipment. To implement the Public Project Revolving Fund Program, the NMFA has been granted the following specific powers: to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA; to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (i) a loan to a qualified entity, (ii) a purchase or sale of securities individually or on a pooled basis, or (iii) the performance of its duties and execution of any of its powers under the Act; to purchase, hold or sell securities; to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities; in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and to acquire and hold title to or leasehold interest in real and personal property and to sell, convey or lease that property in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under state law.

Other NMFA Programs and Projects

The NMFA participates in several other programs designed to provide financing for equipment and projects to both local government entities and state agencies. These projects are funded by various sources and do not have a lien or claim of any type on the Pledged Revenues that secure the Series 2004A Bonds.

Workers' Compensation Administration Building Financing

In 1993 and 1994, the New Mexico Legislature authorized the NMFA to sell a total of $6 million in revenue bonds for the acquisition of land and site improvement, planning, designing, constructing, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided that the first forty cents ($.40) of each quarterly four dollar ($4) of Workers' Compensation assessment paid to the State would be pledged to the NMFA for payment of the revenue bonds associated with the WCA project. In July 1995, the NMFA publicly sold $2.5 million of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold $4.31 million in long-term bonds to retire the outstanding bonds and to finance construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

In 1993, the New Mexico Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of $6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center.

In 2003, the New Mexico Legislature authorized the NMFA to issue up to $60,000,000 of revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA expects to issue the bonds in the spring of 2004.

Primary Care Capital Fund

In 1994, a $5 million revolving fund was created in the State treasury from which to provide loans and other financial assistance to rural primary care health clinics. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Health Department and the NMFA have negotiated a joint powers agreement whereby the Health Department will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Health Department have adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded thirteen loans totaling approximately $6.65 million.

Administrative Office of the Courts Financing

The 1996 and 1999 Legislatures authorized the NMFA to issue revenue bonds in an amount not to exceed $12 million for the purpose of financing acquisition of court automation systems for the State court system and development of statewide appellate automation, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. $8.5 million in bonds were sold in 1996 with an additional $3.5 million in bonds sold in 1999. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, and a portion of certain costs and penalty assessments to be collected upon conviction of persons of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The 1996 and 1999 Bonds were defeased on June 1, 2001.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to $1,585,000,000 in bonds for the purpose of financing state transportation projects. The first series of bonds for state transportation projects are expected to be issued in the spring of 2004. The bonds will be payable from state road fund and federal transportation revenues and not from the Pledged Revenues.

On October 2, 1998, the NMFA issued its $100,230,000 Federal Highway Grant Anticipation Revenue Bonds, Series 1998A for the purpose of financing the costs of acquiring, constructing, expanding and improving approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes (the "Corridor 44 Project") by the New Mexico State Highway and Transportation Department ("NMSHTD"). The bonds are payable from the NMFA's rights to payments under a loan agreement between the NMFA and NMSHTD. The obligations of NMSHTD under the loan agreement are payable solely from and secured by a pledge of certain revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented. Subsequent bond issues for the completion of the Corridor 44 Project were issued directly by NMSHTD.

In February 2001, the NMFA issued $18,535,000 in Federal Highway Grant Anticipation Revenue Bonds, Series 2001 for the purposes of financing the design, repair, construction, expansion, reconstruction and improvement of certain public lands highways located in New Mexico. The bonds are solely payable from the NMFA's rights to payments under a Loan Agreement between the NMFA and NMSHTD. The obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a pledged of certain revenues received by or on behalf of NMSHTD pursuant to Chapters 1 and 2 of Title 23 United States Code, Highways, as amended and supplemented.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was signed into law on April 9,1997. The Drinking Water Fund Act creates, in the NMFA, the New Mexico Drinking Water State Revolving Loan Fund (DWRLF) which is administered by the NMFA. The NMFA was charged with the establishment, in cooperation with the State of New Mexico Environment Department, of a loan program to provide local authorities with low-cost financial assistance in the construction of drinking water facilities necessary to protect the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act (SDWA), which required the Environmental Protection Agency (EPA) to make capitalization grants to the states to further the health objectives of the SDWA. Under the re-authorization, capitalization grants will be made to the states over the next seven years.

New Mexico has been awarded a total of $50,943,500 in capitalization grant dollars from the EPA through December 1, 2003, and has provided a total state match of $10,188,700.

The NMFA can utilize funds in the DWRLF to make loans to localities for drinking water facility construction, renovation or expansion. For projects with proper legislative approval, these loans can be combined with loans from the Public Project Revolving Fund to leverage the funds in the DWRLF to create a greater dollar volume of loans. To date the NMFA has funded 17 loans totaling approximately $21,162,361.

Bernalillo Metropolitan Court

During the 1998 special legislative session and the 2000 legislative session, the Legislature authorized the NMFA to issue up to $57.9 million in revenue bonds for the purpose of financing the acquisition of real property and the design, construction and equipping of a new court building and an adjacent parking facility for the Bernalillo Metropolitan Court in Albuquerque, New Mexico. The first series of bonds for the Metropolitan Court Project, the Court Facilities Fee Revenue Bonds, were issued on August 16, 2001 in the amount of $33,000,000. On September 5, 2002, the next series of bonds was issued in the amount of $24,900,000. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle and amounts on deposit in the Subordinate Lien PPRF

Revenue Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS - Outstanding Subordinate Debt" herein.

During the 2003 legislative session, the legislature authorized the NMFA to issue an additional $3.9 million in revenue bonds for the purpose of funding additional improvements to the Bernalillo Metropolitan Court. These bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by Section 6-21-6(K) NMSA 1978.

Water and Wastewater Grant Fund Program

In 2000, the Legislature authorized the NMFA to issue up to $5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated approximately $41,000,000 to the Water and Wastewater Grant Fund Program to fund 72 public water and wastewater systems. In 2002, the Legislature appropriated $15,000,000 to the Water and Wastewater Grant Fund, but did not identify specific projects to receive the benefit of these funds. For this reason, the NMFA has used the 2002 legislative appropriation only for certified emergency projects. In 2003, the Legislature granted a temporary increase in the total amount of emergency grants the NMFA can make in any fiscal year. As a result, through fiscal year 2006, the NMFA may make up to $6,000,000 in emergency grants per fiscal year. As of December 31, 2003, the NMFA Board of Directors has approved 139 grants, totaling approximately $51,000,000.

Water and Wastewater Planning Fund Program

The Water and Wastewater Planning Fund was created by the Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued $1,000,000 in bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional $1,000,000 to this fund.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue bonds in the amount of $75,000,000 to finance four separate projects: (i) purchase, renovate, equip and furnish the National Education Association Building on South Capitol Street in Santa Fe, (ii) plan, design, construct, equip and furnish a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, (iii) purchase, renovate, equip and furnish the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, and (iv) purchase land adjacent to the District 5 Office of the State Highway and Transportation Department on Cerrillos Road in Santa Fe. The bonds are payable from a pledge of a portion of the State's gross receipts tax. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of $34,695,000 to finance a portion of the authorized projects.

The Legislature in 2003 authorized the NMFA to issue bonds in the amount of $5.76 million for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The bonds are payable from a pledge of a portion of the State's gross receipts tax. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by Section 6-21-6(K) NMSA 1978.

Interim Loan Programs

The NMFA is authorized to use money on deposit in the public project revolving fund to make loans to qualified entities for the financing of (1) equipment for fire protection, law enforcement and protection, computer and data processing, street and road construction and maintenance, emergency medical services, solid waste collection, transfer and disposal, radio and telecommunications, and utility system purposes, and (2) the acquisition, construction and improvement of fire stations. Interim loans may be made for those purposes in amounts not exceeding five hundred thousand dollars, and will, within two years after loans are made, be specifically authorized by law at a legislative session or, within that two year period, bonds will be issued by the NMFA, the proceeds of which will be used to reimburse the public project revolving fund for the amounts used to make interim loans. Projects funded with the proceeds of interim loans under the equipment program are not required to obtain specific authorization by law, as required of projects funded directly from the public project revolving fund.

The Subordinate Lien Program

The NMFA is authorized to issue bonds pursuant to the Subordinated General Indenture of Trust and Pledge dated as of June 1, 2002 and supplements thereto (collectively, the "Subordinated General Indenture") to provide funds to Governmental Units for projects that have been approved by the legislature for funding through the Public Project Revolving Fund. In connection with the issuance of bonds issued pursuant to the Subordinated General Indenture (the "Subordinate PPRF Bonds"), the NMFA may enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate PPRF Bonds for projects. Such loan agreements and securities are referred to herein as "Subordinate PPRF Agreements." The Subordinate PPRF Bonds are secured by (i) all revenues received or earned by the NMFA from or attributable to the Subordinate PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program); (ii) public project revolving fund revenues released from the Indenture; (iii) all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Subordinated General Indenture; and (iv) all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Subordinated General Indenture.

LITIGATION

To the knowledge of the NMFA, there is no controversy or litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2004A Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Revenues for the payment of the debt service on the Series 2004A Bonds or in any way contesting or affecting the validity or enforceability of the Series 2004A Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA will deliver a no-litigation certificate as to the foregoing prior to the issuance of the Series 2004A Bonds.

UNDERWRITING

RBC Dain Rauscher Inc., Piper Jaffray & Co. and Banc of America Securities LLC (collectively, the "Underwriters") have agreed to purchase the Series 2004A Bonds from the NMFA pursuant to a Bond Purchase Agreement dated January 16, 2004 (the "Bond Purchase Agreement"), at an aggregate price of $42,670,285.10 (being the aggregate principal amount less a net original issue discount of $470,182.90 and less Underwriters' discount of $259,532.00). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2004A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the Series 2004A Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

TAX MATTERS

Series 2004A-1 Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004A-1 Bonds. The NMFA and the 2004A Governmental Units whose loans are being financed by the issuance of the Series 2004A-1 Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004A-1 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004A-1 Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special

Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and such 2004A Governmental Units with such requirements and restrictions in rendering its opinion regarding the tax exempt status of interest on the Series 2004A-1 Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004A-1 Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the Series 2004A-1 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004A-1 Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. Said Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004A-1 Bonds.

Original Issue Premium

Certain of the Series 2004A-1 Bonds may be offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2004A-1 Bond through reductions in the holder's tax basis for the Series 2004A-1 Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Series 2004A-1 Bond rather than creating a deductible expense or loss. Series 2004A-1 Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount

Certain of the Series 2004A-1 Bonds may be offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. Original issue discount on a Series 2004A-1 Bond accrues as tax-exempt interest periodically over the term of the Series 2004A-1 Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2004A-1 Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2004A-1 Bondholders should consult their tax advisors for an explanation of the accrual rules.

Taxable Series 2004A-2Bonds

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, interest on the Taxable Series 2004A-2 Bonds is not excluded from gross income for federal income tax purposes.

State of New Mexico Income Tax

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, under laws of the State of New Mexico as currently enacted and construed, interest on the Series 2004A Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2004A Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions included in Appendix E hereto. Certain legal matters will be passed upon for the NMFA by the Office of the Attorney General for the State of New Mexico or by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the

NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA and for the Underwriters by Hughes & Strumor Ltd., Co., Albuquerque, New Mexico The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA contained in this Official Statement.

EXPERTS

The NMFA has retained Western Financial Group, LLC, as financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2004A Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Western Financial Group, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

FINANCIAL STATEMENTS

The combined financial statements of the NMFA for the year ended June 30, 2003, included as Appendix A of this Official Statement have been audited by Neff & Ricci, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated October 10, 2003. Such financial statements represent the most current audited financial information available for the NMFA. Neff & Ricci, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission in connection with the issuance of the Series 2004A Bonds, the NMFA will execute and deliver a Continuing Disclosure Undertaking pursuant to which it will agree to provide the following information:

(i) to each nationally recognized municipal securities information repository ("NRMSIR"):

(1) annual financial information and operating data as follows:

(a) with respect to the NMFA, information concerning the NMFA Portion of the Governmental Gross Receipts Tax Revenues, such information to be of the type set forth under the table captioned "Governmental Gross Receipts Taxes Collections Fiscal Years 1998-1999 through 2002-2003" under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS – Revenues – The Governmental Gross Receipts Tax" in the Official Statement; and

(b) with respect to any Governmental Unit whose Loan repayment obligations constitute more than 5% of the estimated annual Revenues in any year when the Series 2004A Bonds are outstanding (the "5% test") information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement Pledged Revenues, or such shorter period for which such information is available.

and

(2) audited financial statements for the NMFA and any Governmental Unit meeting the 5% test.

Such information will be provided within 270 days of the end of each fiscal year and will be made available, in addition to each NRMSIR, to the Trustee and to each holder of the Series 2004A

Bonds who requests such information. In the event that audited financial statements are not available within such time period, unaudited financial statements will be provided;

(ii) in a timely manner to the Municipal Securities Rulemaking Board ("MSRB") and to a State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Series 2004A Bonds or the Agreements, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the Series 2004A Bonds;

(7) modification of rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Series 2004A Bonds; and

(11) rating changes.

The NMFA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA, such other event is material with respect to the Series 2004A Bonds or the Agreements. However, the NMFA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above; and

(iii) in a timely manner to the MSRB notice of a failure to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The NMFA reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA; provided that, the NMFA has agreed that any such modification will be done in a manner consistent with the Rule. The NMFA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the Series 2004A Bonds and shall be enforceable by the Owners; provided that, the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA's obligations, and any failure by the NMFA to comply with the provisions of the undertaking shall not be an event of default with respect to the Series 2004A Bonds.

Financial information and operating data for the City of Albuquerque, New Mexico, the only Governmental Unit which is expected to provide more than 5% of estimated annual Revenues in any year when Bonds will be Outstanding, is set forth in Appendix E.

The NMFA believes that it is in compliance with its current continuing disclosure undertakings.

RATINGS

Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa," "AAA" and "AAA," respectively, to the Series 2004A Bonds, based on the understanding that upon the delivery of the Series 2004A Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2004A Bonds will be issued by a municipal bond insurer. In addition, Moody's, S&P and Fitch have assigned underlying (*i.e.*, without regard to a municipal bond insurance policy) long-term ratings of "A1," "A-" and "AA," respectively, to the Series 2004A Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, S&P at 55 Water Street, New York, New York 10041, and Fitch at One State Street Plaza, New York, New York 10004.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2004A Bonds and there is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings given to the Series 2004A Bonds may have an adverse effect on the market price of the Series 2004A Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2004A Bonds any proposed revision or withdrawal of the ratings on the Series 2004A Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2004A Bonds.

APPROVAL BY THE NMFA

This Official Statement has been deemed "final" under the meaning of the Rule and its distribution and use by the Underwriters have been duly authorized and approved by the NMFA, and this Official Statement has been executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Executive Director.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance,
Chairman of the Board of Directors

By /s/ David W. Harris
David W. Harris,
Executive Director

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2003

NEW MEXICO FINANCE AUTHORITY

INTRODUCTORY SECTION

FINANCIAL SECTION

SUPPLEMENTAL INFORMATION

SINGLE AUDIT INFORMATION

NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2003

Official Roster

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Samuel O. Montoya, Secretary
Ron Curry
James Jimenez
Rick Homans
Joanna Prukop
Gary Bland
James L. McDonough
Craig Reeves
Randy Harris
David Stone

Executive Director

David W. Harris

Chief Financial Officer

Keith H. Mellor

Controller

Joe Gosline

NEFF + RICCI LLP
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE · SUITE 400 · ALBUQUERQUE, NM 87110
TEL: 505.830.6200 FAX: 505.830.6282 WEB: WWW.NEFFCPA.COM

Independent Auditors' Report

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Authority, as of June 30, 2003, and the respective changes in the financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4-14 is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of pledged collateral is presented for purposes of additional analysis and are not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to each of the respective individual funds taken as a whole.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The New Mexico Finance Authority (the Authority) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (ability to address future year challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

HIGHLIGHTS

Financial Highlights

Statement of Net Assets (see table 1)
The Authority's total net assets at FY 2003 year end were $149,344,036 compared to $152,594,772 in FY 02 a net decrease of $3,250,736 due to the following factors: The governmental net assets for FY 2003 were $29,053,630 compared to $42,605,478 in FY 2002 a decrease of $13,551,848. This was due to three State financing projects paying off and the subsequent liquidation of the funds. Business-type FY 2003 net assets were $120,290,406 compared to $109,989,294 in FY 2002 an increase of $10,301,112. This was due primarily to increases in PPRF loan production; also the other Business-type funds experienced growth across the board.

Statement of Activities (see table 2)
The Governmental and Business-type activities FY 2003 Program revenue was $27,195,280 down from $59,238,182 in FY 2002, a decrease of $32,042,902. This was due entirely to the receipt of two non recurring appropriations totaling $32 million in FY 2002. The Governmental and Business-type activities FY 2003 General Revenue and Transfers were $49,325,234 down from $49,663,239 in FY 2002, a decrease of $338,005

The change in net assets was a decrease of $3,250,737 in fiscal year 2003, due to the reasons explained above. The total FY 2003 cost of all NMFA programs was $79,771,251 compared to $62,015,678, an increase of $17,755,573. The $7,631,463 increase of Governmental Type expenses was due entirely to debt service expenditures related to the accelerated pay off of the variable rate TRIMS project. The $10,124,110 increase of Business-type expenses was due to a number of factors, namely, increases in interest debt service related expenses ($2,000,000), grant expenses ($1,200,000),transfers to other agencies ($6,000,000) and overall growth of NMFA programs as evidenced by the increase of gross assets below.

The Authority's gross assets increased from $558,666,492 in FY 2002 to $622,798,012 in FY 2003 an increase of $64,131,520.

NMFA Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the NMFA and the NMFA provides staff support to the Water Trust Board.

Authority's core program, the PPRF loan program has provided financing for a variety of infrastructure and equipment projects. In FY 2003, the PPRF program made approximately seventy loans totaling approximately $70.7 million compared to forty loans totaling $31 million in FY 2002.

In cooperation with the New Mexico Environment Department (NMED), the NMFA administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY 2003, the DWRLF made three loans totaling $5.9 compared to seven loans totaling $6.9 million in FY 2002. The FY 2003 binding commitments numbered four, approximating $16.5 million compared to three totaling approximately $2.9 million in FY 2002.

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2003, the NMFA Board has approved thirteen loans totaling $6.65 million.

Through June 2003, the NMFA has issued $290 million in bonds to provide all or part of the financing for several state projects, including a Worker's Compensation Administration Building, UNM Cancer Research Center, Administrative Office of the Courts automation project, an Insurance Department automation project, an information system upgrade for the Taxation and Revenue Department, the State Highway and Transportation's Corridor 44 and Highway 70 projects, the State Library Renovation project, and the Bernalillo Metropolitan Courthouse project.

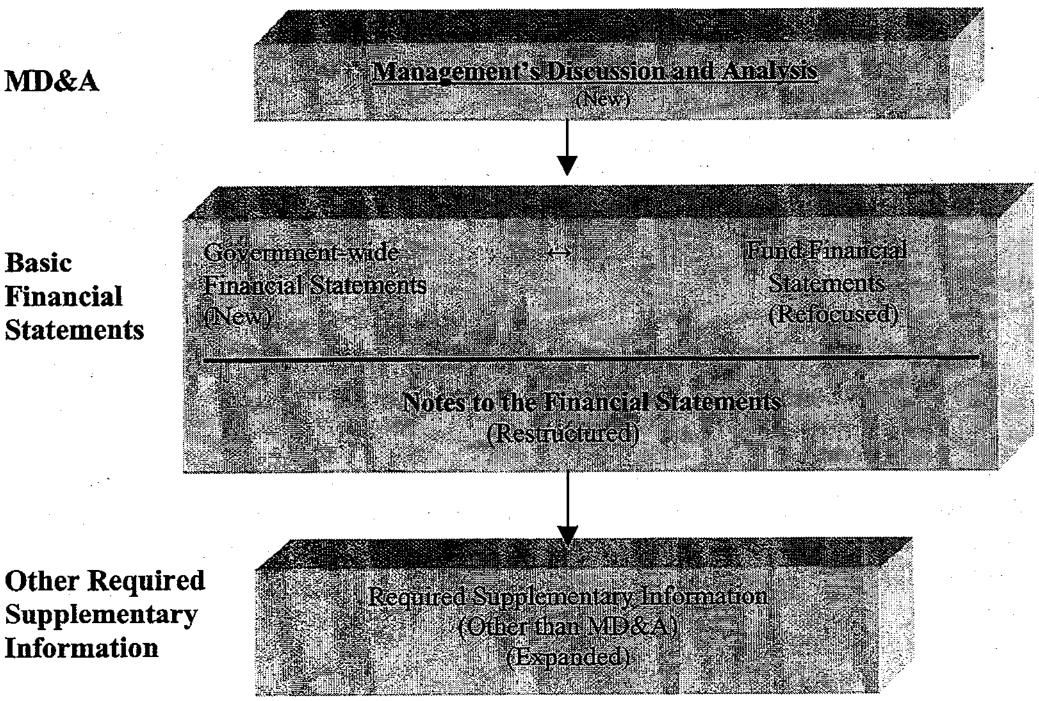
The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY 2003, 40 grants closed for a total of $20,452,613 compared to 25 grants totaling $3,702,584 in FY 2002.

The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework and created a fifteen-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the NMFA, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The NMFA is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2002, House Bill 88, as amended, appropriated $22.5 million for identified regional projects as well as an appropriation for future use to the Water Project Fund in FY 2003. In FY 2003, the Water Trust Board reviewed 65 applications for funding from the $10 million appropriation for General Water Project Finance Act Provisions.

USING THIS ANNUAL REPORT

With the implementation of GASB #34 last year, the presentation of the financial statements is significantly different from the previous general-purpose financial statements. The primary focus in State government's financial statements for the last 20 years (summarized fund type information) has been discarded with implementation of GASB #34. The new focus is on both the NMFA (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the NMFA is an instrumentality of the State of New Mexico Government, the primary government focus in this financial report is the NMFA and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions, or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the NMFA. Both statements distinguish between the governmental and business-type activities of the NMFA. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The government-wide financials statements of the NMFA are divided into two categories:

- Governmental Activities – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the NMFA are the, TRIMS Automation Project, Metro Court Financing, Highway 44 Financing, Federal Highway Forest Road Financing, UNM Cancer Center Financing, Water/Wastewater Grant Fund, Water Trust Board, Water Planning Fund, Workers Compensation Building Financing, State Capitol Improvement Financing, Equipment COP Financings, and the Insurance Department Financings.

- Business-type Activities – The Authority's revolving fund programs and operating fund are included in the Business-type activities. The funds included in the Business-type activities for the NMFA are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the State Building Purchase Fund, and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Governmental Fund Types:

- Special Revenue funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authorities funds classified as Special Revenue Funds are the UNM Cancer Center Bond Fund, the Water Waste/water Grant Fund, the Water Planning Fund, and the Water Projects Fund (accounted for within the Water Trust Fund).

- Debt Service funds – The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs. The funds classified as debt service funds are the TRIMS Project, the Metro Court Financing Fund, the Highway 44 Financing Fund, the Forest Highway Forest Road Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund, The Equipment Certificate of Participation (COP) Funds, and the Insurance Department Financing Fund.

Proprietary Fund Types:

- Enterprise funds – Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the costs of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The funds classified as proprietary funds are, the General Operating fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund, and the State Office Building Financing Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Infrastructure Assets

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The NMFA does not own a material interest in any infrastructure assets and therefore is not required to implement this portion of GASB #34.

Budgetary Comparisons

In addition to MD&A, GASB #34 requires budgetary comparison schedules for the general fund and for each major special revenue fund and enterprise fund that has an adopted annual budget. The Authority does not have any legally adopted budgets and therefore does not present any budgetary statements.

FINANCIAL ANALYSIS OF THE NMFA AS A WHOLE

Net Assets: Table 1 summarizes the Authority's net assets for the fiscal years ending June 30, 2003 and 2002 on a comparative basis. FY 2003 net assets for Governmental Activities and Business-type Activities were $29,053,630 and $120,290,406 respectively. Total NMFA net assets for fiscal year 2003 are $149,344,036. However, most of those net assets are restricted as to the purposes they can be used for. The restricted net assets of Governmental Activities are $29,053,630 at the end of the fiscal year. This amount consists of amounts necessary for debt service on outstanding bond issues. In the Business-type activities, the unrestricted amount of $17,706 is the unrestricted balance of the PPRF Fund and can be used only for the stated purposes of that fund.

Table 1
The NMFA Statement of Net Assets

	Governmental Activities FY 2002	Governmental Activities FY 2003	Business-type Activities FY 2002	Business-type Activities FY 2003	**Total FY 2002**	**Total FY 2003**
ASSETS AND OTHER DEBITS						
Current and Other Assets	$ 139,790,966	122,223,030	123,388,015	172,454,211	**263,178,981**	**294,677,241**
Capital and Non-Current Assets	117,498,390	111,867,524	177,989,121	216,253,247	**295,487,511**	**328,120,771**
Total Assets	**$257,289,356**	**$234,090,554**	**$301,377,136**	**$388,707,458**	**$558,666,492**	**$622,798,012**
LIABILITIES						
Current Liabilities	$ 29,010,052	31,094,603	54,520,358	68,511,006	**83,530,410**	**99,605,609**
Long-Term Liabilities	185,673,826	173,942,321	136,867,484	199,906,046	**322,541,310**	**373,848,367**
Total Liabilities	**214,683,878**	**205,036,924**	**191,387,842**	**268,417,052**	**406,071,720**	**473,453,976**
NET ASSETS						
Invested in capital assets	-	-	31,684	30,056	**31,684**	**30,056**
Restricted	27,528,104	29,053,630	109,717,358	120,242,644	**137,245,462**	**149,296,274**
Unrestricted	15,077,374	-	240,252	17,706	**15,317,626**	**17,706**
Total net assets	**42,605,478**	**29,053,630**	**109,989,294**	**120,290,406**	**152,594,772**	**149,344,036**
Total liabilities and net assets	**$ 257,289,356**	**$234,090,554**	**$301,377,136**	**$388,707,458**	**$558,666,492**	**$622,798,012**

Statement of Activities: (Table 2).

Revenue

Total revenue for The NMFA as a whole in FY 2003 was $76,520,514. The Authority's revenue was generated from a number of sources.

For governmental-type activities total revenue was $39,656,690 of which tax revenues comprised 53%, operating grants and contributions comprised 5%, interest and investment income comprised 7% and charges for services and transfers 35%.

For business-type activities total revenue was $36,863,824 of which tax revenues comprised 62%, operating grants and contributions 22%, interest and investment income 7%, and charges for services and transfers 9%.

Table 2
NMFA Statement of Activities

	Governmental - type Activities (Infrastructure financing) FY 2002	Governmental - type Activities (Infrastructure financing) FY 2003	Business-type Activities (Infrastructure financing) FY 2002	Business-type Activities (Infrastructure financing) FY 2003	Total FY 2002	Total FY 2003
Expenses	$45,577,075	$53,208,538	$16,438,603	$26,562,713	**$62,015,678**	**$79,771,251**
Total program revenues	38,145,176	7,330,051	21,093,006	19,865,229	**59,238,182**	**27,195,280**
Changes in net assets:						
Net (expense) revenue	(7,431,899)	(45,878,487)	4,654,403	(6,697,484)	**(2,777,496)**	**(52,575,971)**
Total general revenues and transfers	26,498,945	32,326,639	23,164,294	16,998,595	**49,663,239**	**49,325,234**
Change in net assets	19,067,046	(13,551,848)	27,818,697	10,301,111	**46,885,743**	**(3,250,737)**
Net assets - beginning,	23,538,432	42,605,478	82,170,597	109,989,294	**105,709,029**	**152,594,772**
Net assets – ending	**$42,605,478**	**$29,053,630**	**$109,989,294**	**$120,290,405**	**$152,594,772**	**$149,344,035**

Expenditures

Total expenditures for The NMFA as a whole in FY 2003 were $79,771,251.

The Authority's total expenditures for government-type activities during the fiscal year were $53,208,538. Approximately 1% of the expenditures are in the area of operating costs which include salaries and benefits, professional services, travel, etc. Grant expenses comprise 18% of the total, debt service expenditures 71%, and transfers to other state agencies 10%.

Expenditures for business-type activities totaled $26,562,713. The majority of expenditures for business-type activities were for debt service at 40%, and transfers to other agencies amounted to 42%. Grant expenses amounted to 8%. With in the operating cost category salaries and benefits comprised 4%, all other operating costs such as repairs and maintenance, travel, supplies etc. comprised 6% of total expenditures.

Budgetary Highlights

For FY 2003 the NMFA completed the year with a favorable variance of $329,794 for its combined total of all budgeted funds (please see Table 3).

Table 3

Total of all Budgeted Program Funds

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Revenues:			
Administrative Fees	$ 757,874	$ 730,592	$ (27,282)
Setaside Revenue	229,734	42,713	(187,021)
Reimbursement Revenue	1,255,286	1,122,114	(133,172)
Interest Income	-	4,133	4,133
Grant Revenue	-	-	-
Total Revenue	2,242,894	1,899,552	(343,342)
Operating Transfers in	173,748	187,296	13,548
Reimbursement Transfers in	-	-	-
Total Revenue and transfers in	$ 2,416,642	$ 2,086,848	$ (329,794)
	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Expenditures:			
Current:			
Personnel Services	$ 947,581	$ 907,513	$ 40,068
Employee Benefits	405,105	311,868	93,237
In-State Travel	60,739	37,175	23,564
Office Supplies	32,599	32,418	181
Contractual Services	636,748	486,916	149,832
Operating Costs	271,594	241,413	30,181
Administrative Fees	-	31,190	(31,190)
Out-of-State Travel	27,125	12,784	14,341
Total Current Expenditures	2,381,491	2,061,277	320,214
Capital Outlay	35,152	25,571	9,581
Total Expenditures	$ 2,416,643	$ 2,086,848	$ 329,794

Capital Assets and Debt Administration

At the end of fiscal year 2003, the NMFA has invested a total of $30,056 net of depreciation in business-type activities; there has been no investment in fixed assets for government-type activities. During FY 2003 capital outlay expenditures totaled $25,571. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 8 to the financial statements.

GASB Statement #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The NMFA does not own any infrastructure assets.

Long-Term Debt

The Authority's long term debt is all outstanding bond issues related to the various programs administered by the NMFA. At the end of fiscal year 2003, the total amount outstanding was $385.6 million. More detailed information about the Authority's long-term debt is presented in Note 9 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year's ended June 30, 2003 and 2002.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2004 budget accommodates the Authority's administration of seven programs paid from different sources of revenue:

- General operations of the NMFA, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board funded from the Water Project Fund;
- Water and Wastewater Grant Fund (W/WWGF)program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) Program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF.
- The Economic Development Fund, funded from administration fees and cigarette tax revenue (new).

The Authority's primary operating budget for FY 2004 is $2,749,443, compared to the FY 2003 budget of $2,376,425, a 16% increase.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

New Mexico Finance NMFA
409 St. Michael's Drive
Santa Fe, New Mexico 87505

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 94,360,012	96,526,082	190,886,094
Receivables			
Taxes	2,853,652	2,023,830	4,877,482
Interest	50,306	1,574,005	1,624,311
Grant and other	8,626	2,409,654	2,418,280
Loans, net of allowance	108,401,445	213,772,550	322,173,995
Securities	-	14,609,637	14,609,637
Due from other funds	16,004	121,229	137,233
Due from other state agencies	2,164,542	-	2,164,542
Cash and cash equivalents - restricted	22,769,888	55,189,774	77,959,662
Capital assets			
Depreciable property and equipment, net	-	30,056	30,056
Deferred issuance costs	3,466,079	2,445,331	5,911,410
Other assets	-	5,310	5,310
Total assets	$ 234,090,554	388,707,458	622,798,012
LIABILITIES			
Accounts payable and accrued liabilities	2,345,148	813,675	3,158,823
Accrued payroll, fringe benefits and compensated absences	10,348	92,020	102,368
Accrued interest payable	2,210,648	877,332	3,087,980
Debt service payable	141,626	16,245,229	16,386,855
Long-term notes payable	2,000,000	-	2,000,000
Funds held for others	16,013,648	32,624,783	48,638,431
Due to other state agencies	35,525	2,538,394	2,573,919
Due to other funds	135,660	1,573	137,233
Bonds payable, current	10,202,000	16,353,305	26,555,305
Bonds payable, long term	171,942,321	198,870,741	370,813,062
Total liabilities	205,036,924	268,417,052	473,453,976
NET ASSETS			
Invested in capital assets	-	30,056	30,056
Restricted for			
Debt service	11,670,331	95,128,155	106,798,486
Program funds	17,383,299	25,114,489	42,497,788
Unrestricted	-	17,706	17,706
Total net assets	29,053,630	120,290,406	149,344,036
Total liabilities and net assets	$ 234,090,554	388,707,458	622,798,012

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

	Governmental - Activities	Business-type Activities	Total
Expenses - Capital Financing	$ 53,208,538	26,562,713	79,771,251
Program revenues			
Charges for services	5,260,078	11,111,914	16,371,992
Operating grants and contributions	2,069,973	8,753,315	10,823,288
Total program revenues	7,330,051	19,865,229	27,195,280
Net (expense) revenue	(45,878,487)	(6,697,484)	(52,575,971)
General revenues			
Taxes			
Governmental gross receipts and gross receipts taxes	21,202,222	23,181,295	44,383,517
Investment earnings	2,462,941	2,478,776	4,941,717
Total general revenues	23,665,163	25,660,071	49,325,234
Transfers	8,661,476	(8,661,476)	-
Change in net assets	(13,551,848)	10,301,111	(3,250,737)
Net assets - beginning	42,605,478	109,989,295	152,594,773
Net assets - ending	$ 29,053,630	120,290,406	149,344,036

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	Administration Fee Revenue Program (TRIMS Project)	Metro Court Financing Fund	Highway 44 Financing Fund
ASSETS			
Cash and cash equivalents	$ 19,794	20,192,333	-
Tax revenue receivable	-	460,985	-
Other assets	-	-	-
Due from other funds	-	-	-
Due from other state agencies	-	-	2,164,542
Loans receivable	-	-	90,335,000
	19,794	20,653,318	92,499,542
Restricted Assets			
Cash and cash equivalents held for others by trustee			
Debt service	-	-	-
Bond reserve	-	4,704,653	26,516
Expense fund	-	-	40,443
Program - Grant proceeds for other state agency	-	-	2,550,488
Program - Bond proceeds	-	-	-
Total restricted assets	-	4,704,653	2,617,447
Total assets	$ 19,794	25,357,971	95,116,989
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued liabilities	$ -	-	2,204,985
Debt service payable	-	111,140	26,516
Notes payable	-	-	-
Funds held for others	-	-	2,550,488
Due to other state agencies	-	-	-
Due to other funds	-	72,375	-
Total liabilities	-	183,515	4,781,989
Fund balances - reserved for			
Debt service	19,794	25,174,456	90,335,000
Special revenue funds	-	-	-
Total fund balances	19,794	25,174,456	90,335,000
Total liabilities and fund balances	$ 19,794	25,357,971	95,116,989

See Notes to Financial Statements.

Federal Highway Forest Road Financing Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
$ -	50,437,186	23,710,699	94,360,012
-	-	2,392,667	2,853,652
-	1,384	7,242	8,626
-	15,491	513	16,004
-	-	-	2,164,542
18,066,445	-	-	108,401,445
18,066,445	50,454,061	26,111,121	207,804,281
-	-	32,452	32,452
3,970	-	532,196	5,267,335
1,002	-	45,357	86,802
-	-	105,429	2,655,917
13,463,160	-	1,264,222	14,727,382
13,468,132	-	1,979,656	22,769,888
		-	
$ 31,534,577	50,454,061	28,090,777	230,574,169
$ 41,002	15,381	94,128	2,355,496
3,970	-	-	141,626
-	-	2,000,000	2,000,000
13,463,160	-	-	16,013,648
-	-	35,525	35,525
-	31,258	32,027	135,660
13,508,132	46,639	2,161,680	20,681,955
18,026,445	-	4,044,758	137,600,453
-	50,407,422	21,884,339	72,291,761
18,026,445	50,407,422	25,929,097	209,892,214
$ 31,534,577	50,454,061	28,090,777	230,574,169

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NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

Total fund balances - governmental funds (Governmental funds balance sheet)	$ 209,892,214
Amounts reported for governmental activities in the statement of net assets are different because:	
Bond deferred issuance costs	3,466,079
Accrued interest payable	(2,210,648)
Interest receivable	50,306
Bonds payable	(180,057,000)
Bonds premium and discount, net	(2,087,321)
Net assets of governmental activities (Statement of net assets)	$ 29,053,630

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Administration Fee Revenue Program (TRIMS Project)	Metro Court Financing Fund	Highway 44 Financing Fund
Revenues			
Tax revenue	$ 8,968,159	5,416,914	-
Grant revenue	-	-	-
Interest on loans	-	44,705	4,357,336
Interest on investments	285,682	527,757	-
Other revenue	-	-	-
Total revenues	9,253,841	5,989,376	4,357,336
Expenditures			
Administrative fee	23,578	130,916	-
Professional services	45,764	47,542	-
Salaries and fringe benefits	-	-	-
In-state travel	-	-	-
Maintenance and repairs	-	-	-
Operating costs	-	-	-
Grant expense	-	-	-
Total current expenditures	69,342	178,458	-
Debt service			
Principal payments	19,099,600	1,810,000	5,050,000
Interest expense	153,775	2,642,876	4,357,336
Bond issuance costs	-	65,071	-
Total debt service expenditures	19,253,375	4,517,947	9,407,336
Excess (deficiency) of revenues over expenditures	(10,068,876)	1,292,971	(5,050,000)
Other Financing Sources (Uses)			
Bond proceeds	-	24,900,000	-
Transfers (to) from other funds	-	2,825,298	-
Transfers to other state agencies	(7,081,226)	(24,078,978)	-
Total other financing sources (uses)	(7,081,226)	3,646,320	-
Net change in fund balance	(17,150,102)	4,939,291	(5,050,000)
Fund balances - beginning	17,169,896	20,235,165	95,385,000
Fund balances - ending	$ 19,794	25,174,456	90,335,000

See Notes to Financial Statements.

Federal Highway Forest Road Financing Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
$ -	-	6,817,149	21,202,222
-	-	2,069,973	2,069,973
855,589	-	-	5,257,630
-	1,086,398	563,104	2,462,941
-	-	161,624	161,624
855,589	1,086,398	9,611,850	31,154,390
-	-	37,213	191,707
-	158,110	122,905	374,321
-	84,790	122,420	207,210
-	4,958	9,826	14,784
-	1,402	2,143	3,545
-	33,673	37,960	71,633
-	8,163,605	1,760,028	9,923,633
-	8,446,538	2,092,495	10,786,833
705,000	-	1,944,000	28,608,600
855,589	-	1,230,614	9,240,190
-	-	-	65,071
1,560,589	-	3,174,614	37,913,861
(705,000)	(7,360,140)	4,344,741	(17,546,304)
-	-	-	24,900,000
-	4,966,705	869,473	8,661,476
-	-	(2,203,439)	(33,363,643)
-	4,966,705	(1,333,966)	197,833
(705,000)	(2,393,435)	3,010,775	(17,348,471)
18,731,445	52,800,857	22,918,322	227,240,685
$ 18,026,445	50,407,422	25,929,097	209,892,214

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NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

Total fund balances - governmental funds (Governmental funds statement of revenues, expenditures and changes in fund balance)	$	(17,348,471)
Amounts reported for governmental activities in the statement of net activities are different because		
Issuance of bonds		(24,900,000)
Bond debt service principal payments		28,608,600
Change from prior year in:		
Amortization of bond issuance costs		(25,078)
Amortization of net bond premium		16,951
Interest expense on long-term debt is recognized when paid under the modified accrual basis of accounting		93,702
Interest receivable more than 60 days after year end does not meet the criteria specified for measurable and available under the modified accrual basis of accounting.		2,448
Change in net assets of governmental activities (Statement of activities)	$	(13,551,848)

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	DWRLF
ASSETS			
Cash and cash equivalents	$ 2,121,357	60,847,660	607,204
Receivables			
Taxes	-	1,523,830	-
Interest	-	1,485,851	88,154
Grant and other	12,390	101,081	2,296,183
Due from other funds	47,281	73,948	-
Total current assets	2,181,028	64,032,370	2,991,541
Loans, net of allowance	-	190,332,941	18,522,305
Securities	-	14,609,637	-
Restricted assets - cash and cash equivalents	-	41,613,374	11,192,716
Capital assets			
Depreciable property and equipment, net	16,648	8,024	5,384
Deferred issuance costs, net	-	2,046,897	-
Other assets	5,310	-	-
Total assets	$ 2,202,986	312,643,243	32,711,946
LIABILITIES			
Accounts payable and other liabilities	$ 40,762	293,599	157,746
Accrued payroll, fringe benefits and compensated absences	77,296	6,069	8,655
Accrued interest payable	-	744,959	-
Debt service payable	-	15,175,975	1,053,074
Funds held for others	-	22,641,109	9,966,700
Due to other state agencies	2,096,160	200,988	241,246
Due to other funds	-	1,573	-
Bonds payable, current	-	15,138,305	-
Total current liabilities	2,214,218	54,202,577	11,427,421
Bonds payable, long-term	-	167,193,838	-
Total liabilities	2,214,218	221,396,415	11,427,421
NET ASSETS			
Invested in capital assets	16,648	8,024	5,384
Restricted for:			
Debt service	(27,880)	68,618,265	21,130,962
Program funds	-	22,602,833	148,179
Unrestricted	-	17,706	-
Total net assets	(11,232)	91,246,828	21,284,525
Total liabilities and net assets	$ 2,202,986	312,643,243	32,711,946

See Notes to Financial Statements.

Primary Care Capital Fund	State Building Purchase Fund	Totals
$ -	32,949,861	96,526,082
-	500,000	2,023,830
-	-	1,574,005
-	-	2,409,654
-	-	121,229
-	33,449,861	102,654,800
4,917,304	-	213,772,550
-	-	14,609,637
2,383,684	-	55,189,774
-	-	30,056
-	398,434	2,445,331
-	-	5,310
$ 7,300,988	33,848,295	388,707,458
$ -	321,568	813,675
-	-	92,020
-	132,373	877,332
16,180	-	16,245,229
16,974	-	32,624,783
-	-	2,538,394
-	-	1,573
-	1,215,000	16,353,305
33,154	1,668,941	69,546,311
-	31,676,903	198,870,741
33,154	33,345,844	268,417,052
-	-	30,056
4,904,357	502,451	95,128,155
2,363,477	-	25,114,489
-	-	17,706
7,267,834	502,451	120,290,406
$ 7,300,988	33,848,295	388,707,458

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	DWRLF
Interest earnings			
Interest on loans	$ -	9,628,241	352,267
Interest on investments	4,133	1,243,754	199,748
Total interest earnings	4,133	10,871,995	552,015
Interest expense			
Debt service - interest expense	-	7,356,984	-
Net interest earnings	4,133	3,515,011	552,015
Provision for loan losses	-	39,497	-
Net interest earnings after provision for loan losses	4,133	3,475,514	552,015
Non-interest earnings			
Tax revenue	-	17,181,295	-
Federal grant revenue	-	-	2,813,365
Revolving loans grant revenue	-	-	5,939,950
Administrative fees	699,401	400,608	31,191
Total non-interest earnings	699,401	17,581,903	8,784,506
Non-interest expense			
Grant expense	-	2,798,896	-
Bond issuance costs	-	1,424,898	-
Administrative fee	-	400,608	31,191
Professional services	132,445	741,140	38,478
Salaries and fringe benefits	730,925	218,292	85,470
Technical set-aside expense	-	-	149,453
In-state travel	13,236	6,265	2,891
Out of state travel	4,611	-	7,159
Maintenance and repairs	12,472	3,182	1,407
Supplies	10,343	3,446	3,881
Operating costs	133,644	34,101	15,076
Depreciation	9,837	4,292	3,868
Total non-interest expense	1,047,513	5,635,120	338,874
Total non-interest earnings (expense) before transfers	(348,112)	11,946,783	8,445,632
Transfers			
Transfers in (out)	187,296	(8,848,772)	-
Transfers from (to) other state agencies	-	-	(2,004,212)
Total transfers	187,296	(8,848,772)	(2,004,212)
Change in net assets	(156,683)	6,573,525	6,993,435
Total net assets - beginning	145,451	84,673,303	14,291,090
Total net assets - ending	$ (11,232)	91,246,828	21,284,525

See Notes to Financial Statements.

Primary Care Capital Fund	State Building Purchase Fund	Totals
$ 206	-	9,980,714
249,067	782,074	2,478,776
249,273	782,074	12,459,490
-	1,617,690	8,974,674
249,273	(835,616)	3,484,816
-	-	39,497
249,273	(835,616)	3,445,319
-	6,000,000	23,181,295
-	-	2,813,365
-	-	5,939,950
-	-	1,131,200
-	6,000,000	33,065,810
-	-	2,798,896
-	22,238	1,447,136
-	50,723	482,522
-	5,756	917,819
-	-	1,034,687
-	-	149,453
-	84	22,476
-	-	11,770
-	-	17,061
-	-	17,670
-	-	182,821
-	-	17,997
-	78,801	7,100,308
-	5,921,199	25,965,502
-	-	(8,661,476)
-	(8,444,022)	(10,448,234)
-	(8,444,022)	(19,109,710)
249,273	(3,358,439)	10,301,111
7,018,561	3,860,890	109,989,295
$ 7,267,834	502,451	120,290,406

NEW MEXICO FINANCE AUTHORITY
COMBINED STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	Drinking Water Fund
Cash Flows From Operating Activities			
Cash paid for employee services	$ (715,749)	(217,271)	(84,011)
Cash paid to vendors for services	(281,610)	(641,169)	(224,282)
Bond issuance costs paid	-	(841,800)	-
Interest expense paid	-	(7,080,441)	-
Grants awarded	-	(2,798,896)	-
Tax revenue	-	16,779,028	-
Cash received from federal government for revolving loans	-	-	5,939,950
Interest income received	4,133	10,647,810	514,927
Administrative fees received	797,450	400,608	31,191
Net cash (used) provided by operating activities	(195,776)	16,247,869	6,177,775
Cash Flows From Non-Capital Financing Activities			
Operating transfers	187,296	(8,848,772)	-
Cash paid to subrecipients for services	-	-	(2,004,212)
Federal grant revenue received	-	-	1,438,252
Cash provided by funds held for others	1,696,917	599,858	921,839
Net cash provided (used) by non capital financing activities	1,884,213	(8,248,914)	355,879
Cash Flows From Capital and Related Financing Activities			
Securities	-	874,225	-
Loans funded	-	(63,708,628)	(5,939,950)
Loan payments received	-	14,399,569	523,741
Bonds issued	-	95,555,000	-
Payment of bonds	-	(16,019,936)	-
Fixed asset purchases	(7,789)	(6,111)	(2,469)
Net cash provided (used) by capital and related financing activities	(7,789)	31,094,119	(5,418,678)
Net increase (decrease) in cash and cash equivalents	1,680,648	39,093,074	1,114,976
Cash and cash equivalents - beginning of year	440,709	63,367,960	10,684,944
Cash and cash equivalents - end of year	$ 2,121,357	102,461,034	11,799,920
Reconciliation of operating income (loss) to net cash used by operating activities - operating income	$ (156,683)	6,573,525	6,993,435
Adjustments to operating income			
Depreciation and amortization	9,837	587,390	3,868
Bad debt expense	-	39,497	-
Net transfers	(187,296)	8,843,984	-
(Increase) decrease in prepaids and receivables	95,145	(43,354)	(846,241)
Increase (decrease) in payables and other accrued liabilities	43,221	246,827	26,713
Net cash (used) provided by operating activities	$ (195,776)	16,247,869	6,177,775

See Notes to Financial Statements.

Primary Care Fund	State Building Purchase Fund	Totals
$ -	-	(1,017,031)
-	(56,563)	(1,203,624)
-	-	(841,800)
-	(1,621,573)	(8,702,014)
-	-	(2,798,896)
-	6,000,000	22,779,028
-	-	5,939,950
249,273	782,074	12,198,217
-	-	1,229,249
249,273	5,103,938	27,583,079
-	-	(8,661,476)
-	-	(2,004,212)
-	-	1,438,252
(23,929)	(10,923,382)	(7,728,697)
(23,929)	(10,923,382)	(16,956,133)
-	-	874,225
-	-	(69,648,578)
333,723	-	15,257,033
-	-	95,555,000
-	(1,178,502)	(17,198,438)
-		(16,369)
333,723	(1,178,502)	24,822,873
559,067	(6,997,946)	35,449,819
1,824,617	39,947,807	116,266,037
$ 2,383,684	32,949,861	151,715,856
$ 249,273	(3,358,439)	10,301,111
-	22,238	623,333
-	-	39,497
-	8,444,022	17,100,710
-	-	(794,450)
-	(3,883)	312,878
$ 249,273	5,103,938	27,583,079

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NOTE 1. ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act), is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer, the Secretary of the Department of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, the Secretary of the Environment Department, the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, shall appoint to the Authority the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state except as specifically provided in the New Mexico Finance Authority Act.

The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

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.

The Authority is a governmental entity in accordance with Governmental Accounting Standard Board Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NOTE 1. ORGANIZATION (CONTINUED)

The financial reporting entity as defined by GASB Statement 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. The Authority is, however, considered to be a component unit of the State of New Mexico. The Authority does not have any component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Authority includes only one function (infrastructure financing).

The net cost (by function or business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Authority does not currently employ indirect cost allocation systems.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals on the business-type activities (Enterprise) fund statements match the business type activities column presented in the government-wide statements, since there are no reconciling items.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

The financial transactions of the Authority are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB Statement 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The Authority uses the following fund types:

Governmental Fund Types. The focus of governmental fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority.

Special Revenue Funds. The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Building Program-Cigarette Tax. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act in an amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds or any payments for refunding or redemption premiums on the bonds and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Water and Wastewater Project Grant Fund. This fund was created with the passage of Senate Bill 662 during the 1999 Legislative Session. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1 NMSA 1978, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project and to pay administrative costs of the water and wastewater project grant program.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any unexpended or unencumbered balance remaining at the end of the fiscal year shall not revert to the State's general fund. There was no sale of bonds made for this program for the year ended June 30, 2003.

Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 legislative session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Projects Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Water and Wastewater Planning Grant Fund The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant will not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

Emergency Drought Water Program Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

Debt Service Funds. The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administrative Fee Revenue Program (TRIMS Project). Chapter 125, Laws of New Mexico 1997 was enacted to authorize the Authority to sell up to $33,709,800 of bonds for the purpose of financing the New Mexico Taxation and Revenue Department (NMTRD) information management systems project (TRIMS Project). The TRIMS Project is an integration and updating of on-line, multi-user systems that process taxation, motor vehicle tax and fee collections, revenue distributions and information processing by the NMTRD. Revenue from NMTRD's administrative fees is pledged to repay the bonds. The Authority issued $17,440,660 of Administrative Fee Revenue Bonds Series 1997A in September 1997. The Authority issued the remaining $16,269,140 Administrative Fee Revenue Bonds Series 1999A in September 1999.

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

Highway 44 Financing Fund. Series 1998A Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 1998A Bonds were issued by the Authority to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico Highway and Transportation Department (NMSHTD), and are payable solely from the NMFA's rights to payments under a Loan Agreement between the NMFA and NMSHTD. $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds was issued on September 1, 1998. The Obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a revenue pledge, which consists of certain revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

Forest Highway Forest Road Financing Fund. Series 2001 Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 2001 Bonds were issued to finance the cost of an infrastructure project, which includes the design, reconstruction,

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21) to the extent for funding as part of the Federal Lands Highway Program and the New Mexico Statewide Transportation Improvement Program by the New Mexico State Highway and Transportation Department (NMSHTD). The Series 2001 Bonds are payable Solely from certain of the NMFA's rights to payments under a Loan Agreement (Series 2001 Loan Agreement) between the NMFA and NMSHTD. The obligations of NMSHTD under the Series 2001 Loan Agreement are payable solely from and secured by a pledge of the "Pledge Revenues," which consist of certain revenues received by or on behalf of NMSHTD pursuant to Chapters 1 and 20 of Title 12, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

Workers' Compensation Financing Fund. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the American with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint powers agreement to accomplish this purpose. $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of each calendar quarter, after all current obligations and any sinking fund requirements are met shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

State Capitol Improvement Financing Fund. The laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a State building located adjacent to the state capitol in Santa Fe known as the New Mexico state library and for relocation-associated renovations in the state capitol. $510,000 of revenue bonds were issued on May 17, 1999, and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, NMFA issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B, the proceeds of which were loaned to various governmental entities in the state.

The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance Department Financing Fund. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $1 million for the purpose of financing information and communication equipment, including computer hardware and software, for the New Mexico Department of Insurance. The Legislature imposed a three dollar ($3.00) surcharge on the annual continuation of appointment fees on approximately 60,000 insurance agents subject to the fees to provide security for the bonds. On April 18, 1996, the New Mexico Insurance Department requested the Authority to issue $525,000 of the authorized bonds for acquiring information and communication equipment. The bonds were privately placed in a transaction that closed on May 23, 1996, and the proceeds were transferred to the New Mexico Department of Insurance. The pledged revenues are paid to the Authority. Pledged revenue in excess of debt service and related expenditures may be appropriated by the Legislature to the Department of Insurance for the acquisition of information and communication equipment.

Court Automation Financing Program. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $8.5 million for the purpose of financing acquisition of court automation systems for the state court system, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. $8.5 million of court automation fee revenue bonds were issued on June 25, 1996. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provisions of the motor vehicle code involving the operation of a motor vehicle. The pledged revenues are paid to the Authority. Pledged revenues in excess of debt service and related expenditures may be appropriated by the Legislature to the Administrative Office of the Courts for the acquisition of court automation systems. The Bond was defeased during 2001.

Proprietary Fund Types. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Funds. Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs.

Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978.

Of the GGRT revenues directed to the Authority's Public Project Revolving Fund, which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater grant project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund, and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities or "leveraged" by pledging the revenue stream to the issuance of bonds and granting, or lending, the bond proceeds. All projects to be financed must be approved by the Legislature.

New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) creates the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority.

The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities.

Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and, 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.
Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health, and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority for assistance to the Department and administration of the Primary Care Capital Fund.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping, and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of (1) purchasing the National Educational Association Building on South Capitol Street in Santa Fe, New Mexico, (2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico and (3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may included the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authorities enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting. Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the proprietary financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Accrual. The enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (amounts collected within 60 days after year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

advances by the provider and deferred revenue by the recipient. The Authority was unable to reasonably estimate the amount of revenue earned but not yet received by the Taxation and Revenue Department by the June 30 year-end. As a result, the amount is not included as revenue in the financial statements.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer are invested by the New Mexico State Treasurer in the "overnight" repurchase program.

Interest is credited to the various programs based on the programs average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statues require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

Securities. The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds which are recorded at cost which approximates market value.

Loans. Loans are stated at their principal amount. Interest on loans is accrued for based on the daily principal balance outstanding except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on nonaccrual status.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses. The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors; including collateral value, past loan loss experience, current facts, and economic conditions. The allowance is based on management's estimates and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, any necessary adjustments are reported in income in the period they become known.

Property, Furniture and Equipment. Property, furniture and equipment purchased or acquired at a value of $1,000 or greater are capitalized. Property, furniture and equipment are stated at cost less accumulated depreciation. Furniture and equipment purchases with useful lives over one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years. In addition, furniture and equipment 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.

Income Taxes. The Authority is a tax exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

Accrued Compensated Absences Payable. Full-time employees are entitled to ten days annual leave with four years or less employment with the Authority. Employees with more than four years receive fifteen days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. Part-time employees accrue annual leave and sick leave on a prorated basis based on the number of hours they work. A full-time employee may receive cash payment at a rate of 50% of their hourly wage for any accrued sick leave in excess of forty hours up to a maximum of one hundred twenty hours on the first full pay period in July. An employee may accrue a maximum of 1,040 hours. Accumulated sick leave is not compensated on termination of employment unless the employees retire. Then the employee can be paid for accrued sick leave in the excess of 600 hours at 50% of their hourly wage rate, not to exceed 440 hours. Accrued compensated absences are recorded in the operating fund.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting. The Authority prepares a budget for the operations fund and for the DWRLF. Theses budgets are approved by the Authority's board but are not legally binding. The budgets are also amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the accounting on a budgetary basis and GAAP basis are that capital outlay is a budgetary expenditure and depreciation expense is not a budgetary expenditure.

Restricted Assets. Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "cash and cash equivalents held for others by the Authority" account is used to segregate bond proceeds that will be used for specific purposes as required by legislation. "Cash and cash equivalents pledged for repayment of bonds and bond expenses held by trustee" is used to report funds set aside for debt repayment, bond issuance, and other costs by the Authority.

Cash Flows. For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Discounts, Premiums and Issuance Costs. In governmental fund types, bond discounts, premiums and issuance costs are recognized in the current period. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

Fund Equity. Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets. The government-wide and business types Fund Financial Statements utilize a net asset presentation. Net Assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets which have third-party (statutory, bond covenant or granting agency) limitations on their use when there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

Use of Estimates. The preparation of the 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 amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund and Interagency Transactions. Interfund and Interagency Transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other Interfund transactions, except reimbursements and administrative fee transactions are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Interagency transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE

Funds held for other and short-term investments are held at the trustees in the name of the applicable government entity and the Authority's. The following is a reconciliation of cash and cash equivalents to the financial statements.

Cash and cash equivalents	Book Balance	Bank Balance
State Treasurer Local Government Investment Pool	$204,944,103	205,220,063
Money market accounts invested in American Performance U.S. Treasury Fund	40,749,514	40,749,514
Repurchase agreements	21,031,751	21,031,751
Wells Fargo operating accounts	2,120,388	37,914
	$268,845,756	267,039,242

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes deposits that are insured. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 represents deposits that are required by state statutes to be collateralized at a minimum level of 50%. All of the Authority's collected balances in bank accounts are invested in repurchase agreements. Deposits with the State Treasurer are not required to be categorized.

	Category			Bank	Book
	1	2	3	Balance	Balance
Wells Fargo operating accounts	$ -	37,914	-	37,914	2,120,388

The New Mexico State Treasurer's Office is responsible to ensure that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE (CONTINUED)

Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered investments, or for which securities are held by the counter party's trust department or agent in the Authority's name. The Authority does not have any Category 1 investments. The Authority does not have any Category 2 investments. Category 3 represents uninsured and unregistered investments, not held in the Authority's name. The Authority does not have Category 3 investments.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The source of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts which invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations. The Authority's investments are held by financial institutions in the Authority's name.

NOTE 4. LOANS RECEIVABLE

Loan receivable balances consist of the following at June 30, 2003:

Entity	Loan Balance
Proprietary funds	
Public Project Revolving Loan Fund	$ 191,192,098
Allowance for loan losses	(859,156)
	190,332,942
Primary Care Capital Fund	4,917,303
Drinking Water State Revolving Loan Fund	18,522,305
	213,772,550
Debt service funds	
Highway 44 Financing Fund	90,335,000
Federal Highway Forest Road Financing Fund	18,066,445
	108,401,445
	$ 322,173,995

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Public Project Revolving Loan Fund

The Public Project Revolving Fund loans receivable balance at June 30, 2003, is $191,092,096 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 72,643,725	32,234,849	104,878,574
July 1, 2008 to June 30, 2013	52,667,191	15,937,724	68,604,915
July 1, 2013 to maturity	65,881,182	15,702,846	81,584,028
	$191,192,098	63,875,419	255,067,517

An analysis for the allowance for loan losses is as follows:

Balance, beginning of year	$ (819,658)
Provision for loan losses	(39,498)
Balance, end of year	$ (859,156)

Management considers non-accrual loans to be impaired. As of June 30, 2003 there were no non-accrual loans. Based on management's analysis, there were no other impaired loans as of June 30, 2003.

Primary Care Capital Fund. Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 1,517,480	569,576	2,087,056
July 1, 2008 to June 30, 2013	1,811,043	366,016	2,177,059
July 1, 2013 to maturity	1,588,780	43,061	1,631,841
	$ 4,917,303	978,653	5,895,956

No allowance for uncollectible loans has been established as the primary care facilities and loan repayments are secured by applicable sources of pledged receivables.

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Drinking Water State Revolving Loan Fund. Terms for the Drinking Water State Revolving Loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 4,890,762	1,844,004	6,734,766
July 1, 2008 to June 30, 2013	5,836,390	1,258,844	7,095,234
July 1, 2013 to maturity	7,795,153	727,830	8,522,983
	$ 18,522,305	3,830,678	22,352,983

No allowance for uncollectible loans has been established as the Drinking Water Loans are secured by applicable sources of pledged receivables.

Highway 44 Financing Fund. The Highway 44 Financing Fund consists of one loan receivable with the New Mexico State Highway Department for $90,335,000 at June 30, 2003. Terms for the loan include an interest rate of 5.04%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 28,605,000	18,401,568	47,006,568
July 1, 2008 to June 30, 2013	35,690,000	11,297,392	46,987,392
July 1, 2013 to maturity	26,040,000	1,901,195	27,941,195
	$ 90,335,000	31,600,155	121,935,155

No allowance for uncollectible loans has been established as the State Highway Department is current on their payments and loan repayments are secured by applicable sources of tax revenues.

Federal Highway Forest Road Financing Fund. The Federal Highway Forest Road Financing Fund consists of one loan receivable with the New Mexico State Highway Department for $18,066,445 at June 30, 2003. Terms for the loan include an interest rate of 4.697%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 9,221,445	3,258,138	12,479,583
July 1, 2008 to June 30, 2013	8,845,000	901,635	9,746,635
July 1, 2013 to maturity	-	-	-
	$ 18,066,445	4,159,773	22,226,218

NOTE 5. SECURITIES

At June 30, 2003, securities for the Public Project Revolving Fund (PPRF) consisted of $13,428,015 Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, and 1998B), $40,923 of Jemez Springs Bonds, and $1,140,699 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resource Bonds have interest rates ranging from 3% to 5.95% with final maturity on June 1, 2017. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45% with a final maturity on May 1, 2012. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19% with final maturity on May 1, 2008. The securities are carried at cost which approximates market value.

The following is a summary of future maturity and interest to be collected based on contractual maturity of the securities after year-end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 5,012,559	3,256,843	8,269,402
July 1, 2008 to June 30, 2013	4,942,921	1,977,823	6,920,744
July 1, 2013 to maturity	4,654,157	591,087	5,245,244
	$ 14,609,637	5,825,753	20,435,390

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2003 consist of the following:

	Due To	Due From
Governmental Funds		
Water and Wastewater Grant Fund	$ 31,258	15,491
Water Trust Board	27,011	513
Metro Court	72,375	-
Emergency Drought Relief	2,462	-
Water Planning Grant	2,554	-
	135,660	16,004
Enterprise Funds		
Operations Fund	-	47,281
Public Project Revolving Fund	1,573	73,948
	1,573	121,229
	$ 137,233	137,233

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS (CONTINUED)

The transfers between funds for the year ended June 30, 2003 include a transfer from the Cigarette Tax Fund to the Operations Fund to fund the operations of the Authority in the amount of $1,811,909.

NOTE 7. DUE FROM OTHER STATE AGENCIES

A federal tax liability of $2,164,542 was recorded by the Authority to reflect a bond arbitrage tax liability related to the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1998A. The New Mexico Department of Transportation was the beneficiary of the bond proceeds and has concurred that the liability is owed. Additionally, the New Mexico Department of Transportation has agreed to satisfy the liability. The liability is reflected on the Authority's books (included in accounts payable and accrued liabilities), because the bonds are the legal obligation of the Authority.

NOTE 8. DUE TO OTHER STATE AGENCIES, GRANTS AND TRANSFERS

The following debt service funds transferred these amounts from the applicable bond proceeds to these entities for the year ended June 30, 2003:

> The Worker Compensation Financing Fund transferred $403,439 in order to rebate excess debt service funds back to the entity.
>
> The Insurance Department Financing Fund transferred $1,800,000 in order to rebate excess debt service funds back to the entity.
>
> The Administrative Fee Revenue Program Fund (TRIMS Project) transferred $7,081,226 in order to rebate excess debt service funds back to the entity. The bond issue related to this fund is paid off in fiscal year 2003.
>
> The Metro Court Financing Fund transferred $1,760,229 in order to rebate excess debt service funds back to the entity. Additionally, $18,438,949 was transferred to the Metro Court Administrator for the construction and equipping of the new Bernalillo County Metropolitan Court Building, and $3,879,800 in state legislated funds was transferred to the entity.
>
> The State Building Purchase Fund transferred $8,044,022 to the State of New Mexico general fund in order to rebate excess debt service funds collected.

NOTE 8. DUE TO OTHER STATE AGENCIES, GRANTS AND TRANSFERS (CONTINUED)

The Drinking Water Fund transferred $2,004,212 to qualified entities for technical assistance

NOTE 9. CAPITAL ASSETS

The capital asset activity for the year is as follows:

	Balance July 1, 2002	Additions	Deletions	**Balance June 30, 2003**
Enterprise Funds				
Depreciable assets				
Furniture, fixtures and equipment at historical cost	$ 239,420	16,369	-	**255,789**
Net fixed				
Accumulated depreciation:				
Furniture, fixtures and equipment	(207,736)	(17,997)	-	**(225,733)**
Capital assets, net	$ 31,684	(1,628)	-	**30,056**

There are no capital assets in the governmental funds.

Depreciation expense was $9,837 in the Operations Fund, $4,292 in the Public Projects Revolving Fund, and $3,868 in the DWRLF for the year ended June 30, 2003.

NOTE 10. BONDS PAYABLE

Bonds outstanding as of June 30, 2003, for the Authority's enterprise funds consist of:

Public Project Revolving Funds.

Series 1995A. In July 1995, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1995A in the aggregate principal amount of $41,230,000.

NOTE 10. BONDS PAYABLE (CONTINUED)

Series 1996A. In September 1996, the Authority issued its Public Project Revolving Fund, Series 1996A in the aggregate principal amount of $17,625,000. The proceeds of the bonds were used to make loans to numerous governmental entities and to purchase bonds from the Department of Energy, Minerals and Natural Resources. Additionally, a portion of the proceeds of the bonds was used to make a $9,000,000 grant in 1996 and a $16,000,000 grant in 1998 to the Environment Department in exchange for a pledge of the Environment Department's share of certain moneys to the Authority to repay all outstanding public project revolving fund bonds.

The Series 1995A and 1996A bonds were partially defeased with the Series 2003B Refunding issue. The non-callable portion of the bonds totaled $5,250,000 at June 30, 2003 and was transferred to the Series 2003 B Refunding issue.

Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A Bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investment securities.

Series 1999A, 1999B, 1999C, and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax-exempt) and Series 1999 and 1999D (taxable) in the aggregate amount principal amounts of $13,135,000, $3,025,000, $2,265,000, and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Loan Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish, and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

NOTE 10. BONDS PAYABLE (CONTINUED)

Series 2000B and C. On September 1, 2000 the Authority issued $7,670,000 of Public Project Revolving Fund series B and $28,850,000 series C bonds. The series 2000B and C were issued to reimburse the Public Project Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2000B and C bonds.

Series 2002A. On July 2, 2002 the Authority issued $55,610,000 of Public Projects Revolving Fund series 2002A bonds. The series 2002A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2002A bonds.

Series 2003A. On April 3, 2003 the Authority issued $39,945,000 of Public Projects Revolving Fund series 2003A bonds. The series 2003A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2003A bonds.

Series 2003B. On June 5, 2003 the Authority issued $25,370,000 of Public Projects Revolving Fund series 2003B bonds. The series 2003B were issued to (i) refund the NMFA's outstanding Public Projects Revolving Fund Revenue Bonds, Series 1995A maturing on and after June 1, 2006 and Public Projects Revolving Fund Revenue Bonds, Series 1996A maturing on and after Jun 1, 2007, and (ii) finance the costs of issuance of the Series 2003B bonds and the refunding of the Series 1995A and 1996A bonds.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds Series 2002A were issued on December 15, 2001, for the purpose of financing the costs of acquiring, constructing, equipping, and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds outstanding as of June 30, 2003, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds are for the designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

Insurance Department Financing Fund. On May 23, 1996, the Authority issued $525,000 of New Mexico Finance Authority Insurance Department Surcharge Revenue Bonds, which *was* refunded on December 1, 1998 and reissued at $400,000, to finance information and communication equipment for the New Mexico Department of Insurance. A $3 surcharge on insurance agents annual fee is the only pledged revenue source for the repayment of the bonds and is paid to the Authority.

Administrative Fee Revenue Program Fund (TRIMS Project) Series 1997A and 1999A. On September 11, 1997 and September 20, 1999, the Authority issued $17,440,660 and $16,269,140 of New Mexico Finance Authority (TRIMS Project) revenue bonds, respectively. The bonds were issued to finance an information management system to assist in tax collections to be used by the New Mexico Taxation and Revenue Department (NMTRD). The principal and interest on the bonds are payable solely from and secured solely by the pledged revenues, which include revenues from administrative fees payable to and withheld by NMTRD from collections of municipal and country local option gross receipts taxes, and administrative fees from collections of solid waste assessment fees, boat excise tax and registration fees, tax intercept payments and water conservation fees, as well as proceeds of bonds and investment earnings on the proceeds and revenues.

NOTE 10. BONDS PAYABLE (CONTINUED)

Highway 44 Financing Fund. On September 1, 1998, the Authority issued $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds. The bonds were issued to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico State Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the Authority and NMSHTD. The obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a pledge, which consist of revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The Bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

Federal Highway Forest Road Financing Fund. On February 1, 2001, the Authority issued $18,535,000 of New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds, Series 2001. The Bonds were issued for the purpose of financing the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21).

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds. Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds are being issued by the NMFA

NOTE 10. BONDS PAYABLE (CONTINUED)

for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds are being issued pursuant to the bond resolution with a lien on the Pledged Court Facilities Revenues on parity with the liens thereon of the $21,600,000 New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A and the $11,400,000 New Mexico Finance Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued 2,904,000 aggregate principal amount of its Equipment Program Certificates of participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to thirteen local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities. Total interest expense incurred on bonds in the enterprise funds and the debt service funds were $8,974,674 and $9,240,192, respectively, for the year ended June 30, 2003.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds payable balances consist of the following at June 30, 2003:

	Amount	Interest Rate	Final Maturity
Enterprise funds			
PPRF 1997A	$ 6,602,503	4.25-4.90	June 1, 2017
PPRF 1999A, B, C and D	17,604,744	3.30-6.30	June 1, 2018
PPRF 2000A	3,270,000	4.10-5.30	June 1, 2009
PPRF 2000B and C	22,279,369	4.75-5.50	June 1, 2030
PPRF 2002A	48,501,073	2.00-5.00	June 1, 2026
PPRF 2003A	39,661,202	2.00-4.75	June 1, 2032
PPRF 2003B	44,413,253	2.00-4.00	June 1, 2021
State Office Building Financing Fund	32,891,902	4.00-5.00	June 1, 2021
	215,224,046		
To be paid out of Debt Service funds			
Special Cigarette Tax Revenue Bond	1,800,000	4.80-5.25%	June 1, 2006
Workers Compensation Financing Fund	3,475,000	5.00-5.60	Sept. 1, 2016
Highway 44 Financing Fund	90,335,000	3.95-5.52	Sept. 1, 2015
State Capitol Improvement Financing Fund	7,885,000	7.00	March 15, 2015
Federal Highway Forest Road Financing Fund	17,830,000	4.75-5.50	September 1, 2011
Equipment Loan Fund	2,642,000	4.50-6.30	Various
Metro Court	56,090,000	1.65-6.25	June 15, 2025
	180,057,000		
Bond premium and discount, net on debt service funds	2,087,321		
	182,144,321		
Total	$ 397,368,367		

NOTE 10. BONDS PAYABLE (CONTINUED)

The requirements to amortize the bonds outstanding are as follows:

	Principal	Interest	Total
2004	$ 26,555,305	19,405,939	45,961,244
2005	26,940,305	18,089,893	45,030,198
2006	27,133,305	16,980,292	44,113,597
2007	26,678,305	15,200,032	41,878,337
2008	26,310,305	14,121,967	40,432,272
2009-2013	125,139,004	53,287,746	178,426,750
2014-2018	85,134,838	23,750,153	108,884,991
2019-2023	40,095,000	8,824,810	48,919,810
2024-2028	11,532,000	1,436,920	12,968,920
2029-2032	1,850,000	224,663	2,074,663
	$ 397,368,367	171,322,415	568,690,782

The bonds payable activity for the year is as follows:

	Balance July 1, 2002	Additions	Deletions	**Balance June 30, 2003**
Enterprise Funds	$136,867,484	134,400,527	(56,043,965)	**215,224,046**
Debt Service Funds	185,673,826	25,242,029	(28,771,534)	**182,144,321**
	$322,541,310	159,642,556	(84,815,499)	**397,368,367**

NOTE 11. OPERATING LEASES

The Authority is committed under various lease agreements for office space, copying equipment and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2003 amounted to approximately $127,209. Future minimum lease payments for these leases are as follows:

Year Ending June 30	
2004	$ 131,649
2005	97,479
2006	7,525
	$ 236,653

NOTE 12. RETIREMENT PLAN

The Authority had established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were approximately $104,809, $91,277, and $99,700 for the years ended June 30, 2003, 2002, and 2001, respectively. Substantially all full time employees participate in this plan.

NOTE 13. CONTINGENCIES

The Authority is exposed to various risks of loss for which the Authority carries insurance (Auto; Employee Fidelity Bond; General Liability, Civil Rights; Property; and Worker's Compensation) with the State of New Mexico Risk Management Division and with private insurance companies.

The Authority is not subject to any legal proceedings, claims or liabilities at June 30, 2003.

NOTE 14. COMPENSATED ABSENCES

During the year ended June 30, 2003, the following changes occurred in the compensated absences liabilities:

Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003
$ 82,966	59,928	40,526	102,368

The portion of compensated absences due after one year is not material, and therefore, presented separately.

NOTE 15. SUBSEQUENT EVENTS

After June 30, 2003, the Authority issued the following PPRF Direct Loans, Federal Drinking Water Loans, Water Wastewater Grants, Planning Fund Grants, and Primary Care Loans:

	Closing Date	Amount
PPRF Cash Loans		
Taos County	7/8/2003	$ 1,830,000
Town of Red River	7/11/2003	166,667
Village of Cimarron	7/11/2003	184,501
Otero County	7/11/2003	387,487
Guadalupe County	7/11/2003	47,892
City of Texico	7/11/2003	221,094
Taos County	8/1/2003	331,701
Quay County	8/1/2003	34,783
Quay County	8/1/2003	91,112
Hidalgo County	8/15/2003	126,170
Hidalgo County	8/15/2003	72,339
Sierra County	8/15/2003	276,840
Sierra County	8/15/2003	66,550
Silver City	8/15/2003	385,147
Village of Ruidoso	8/15/2003	175,000
Sierra County	8/15/2003	276,840
Village of Angel Fire (Interim)	8/15/2003	39,500
Mora County (Interim)	8/22/2003	30,000
San Miguel County	8/29/2003	2,182,687
San Miguel County	8/29/2003	250,000
NM State University	9/5/2003	6,977,099
Eddy County (Interim)	9/12/2003	169,750
City of Grants	9/19/2003	1,495,000
City of Grants	9/19/2003	1,060,000
Carrizozo Municipal School District	9/26/2003	300,000
Tucumcari Municipal School District	9/26/2003	1,090,000
Village of Wagon Mound (Interim)	10/17/2003	75,000
Total PPRF Loans		$ 18,343,159
Federal Drinking Water Loans		
Northstar DWC & MSWC	8/15/2003	$ 1,779,798
Planning Fund Grants		
Desert Sands MDWCA	8/29/2003	$ 25,000
Pecan Park MDWCA	10/17/2003	15,400
Total Planning Fund Grants		$ 40,400

NOTE 15. SUBSEQUENT EVENTS (CONTINUED)

	Closing Date	Amount
Primary Care Loans		
Hidalgo Medical Center	8/27/2003	$ 1,100,000
Water Wastewater Grants		
City of Las Vegas	7/11/2003	$ 400,000
City of Belen	8/15/2003	3,490,132
Village of Canada De Los Alamos	8/22/2003	400,000
Green Ridge MDWCA	9/5/2003	400,000
La Cueva MDWCA	9/19/2003	161,600
Tierra Amarilla MDWA	9/26/2003	711,000
Town of Mountainair	10/3/2003	92,700
Dixon MDWCA	10/3/2003	300,600
Upper Canoncitos MDWCA	10/10/2003	270,000
		$ 6,226,032

NEW MEXICO FINANCE AUTHORITY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2003

		Workers' Compensation Financing Fund	Insurance Department Financing Fund	Court Automation Financing Fund	State Capitol Improvement Financing Fund
ASSETS					
Cash and cash equivalents	$	545,475	604,880	32,498	342,853
Tax revenue receivable		191,239	77,805	-	-
Other assets		-	-	-	-
Due from other funds		-	-	-	-
Due from other state agencies					
Loans receivable		-	-	-	-
		736,714	682,685	32,498	342,853
Restricted Assets					
Cash and cash equivalents held for others by trustee					
Debt service		-	-	-	-
Bond reserve		148,924	-	-	-
Expense fund		-	-	-	-
Program - Grant proceeds for other state agency		14	-	1,177	4,126
Program - Bond proceeds		361,900	-	-	-
Total restricted assets		510,838	-	1,177	4,126
Total assets	$	1,247,552	682,685	33,675	346,979
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	$	-	-	-	80,263
Debt service payable		-	-	-	-
Notes payable		-	-	-	-
Funds held for others		-	-	-	-
Due to other state agencies		-	9,047	26,478	-
Due to other funds		-	-	-	-
Bonds payable		-	-	-	-
Total liabilities		-	9,047	26,478	80,263
Fund balances (deficit) - reserved for					
Debt service		1,247,552	673,638	7,197	266,716
Special revenue funds					
Total fund balances		1,247,552	673,638	7,197	266,716
Total liabilities and fund balances	$	1,247,552	682,685	33,675	346,979

See Notes to Financial Statements.

Equipment Loan Fund	State Building Program Cigarette Tax	Water Project Fund	Emergency Drought Relief	Water Planning Grant	Other Governmental Funds
$ -	3,154,698	17,726,436	298,680	1,005,179	23,710,699
1,771,846	351,777	-	-	-	2,392,667
-	-	7,081	161	-	7,242
-	-	513	-	-	513
	-	-	-	-	-
-	-	-	-	-	-
1,771,846	3,506,475	17,734,030	298,841	1,005,179	26,111,121
32,452	-	-	-	-	32,452
-	383,272	-	-	-	532,196
45,357	-	-	-	-	45,357
-	100,112	-	-	-	105,429
-	902,322	-	-	-	1,264,222
77,809	1,385,706	-	-	-	1,979,656
					-
$ 1,849,655	4,892,181	17,734,030	298,841	1,005,179	28,090,777
$ -	-	9,657	1,774	2,434	94,128
-	-	-	-	-	-
-	2,000,000	-	-	-	2,000,000
-	-	-	-	-	-
-	-	-	-	-	35,525
-	-	27,011	2,462	2,554	32,027
-	-	-	-	-	-
-	2,000,000	36,668	4,236	4,988	2,161,680
1,849,655	-	-	-	-	4,044,758
	2,892,181	17,697,362	294,605	1,000,191	21,884,339
1,849,655	2,892,181	17,697,362	294,605	1,000,191	25,929,097
$ 1,849,655	4,892,181	17,734,030	298,841	1,005,179	28,090,777

NEW MEXICO FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Workers' Compensation Financing Fund	Insurance Department Financing Fund	Court Automation Financing Fund	State Capitol Improvement Financing Fund
Revenues				
Tax revenue	$ 976,712	1,142,717	-	993,844
Grant revenue	-	-	-	-
Interest on loans	-	-	-	-
Interest on investments	37,783	21,714	664	5,335
Other revenue	-	-	-	161,624
Total revenues	1,014,495	1,164,431	664	1,160,803
Expenditures				
Administrative fee	9,088	162	-	20,469
Professional services	1,270	-	1,269	1,270
Salaries and fringe benefits	-	-	-	-
In-state travel	-	-	-	-
Maintenance and repairs	-	-	-	-
Operating costs	-	-	-	-
Grant expense	-	-	-	-
Total current expenditures	10,358	162	1,269	21,739
Debt service				
Principal payments	160,000	65,000	-	400,000
Interest expense	191,252	2,600	-	573,125
Bond issuance costs	-	-	-	-
Total debt service expenditures	351,252	67,600	-	973,125
Excess (deficiency) of revenues over expenditures	652,885	1,096,669	(605)	165,939
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Transfers (to) from other funds	-	-	-	-
Transfers to other state agencies	(403,439)	(1,800,000)	-	-
Total other financing sources (uses)	(403,439)	(1,800,000)	-	-
Net change in fund balance	249,446	(703,331)	(605)	165,939
Fund balances - beginning	998,106	1,376,969	7,802	100,777
Fund balances - ending	$ 1,247,552	673,638	7,197	266,716

See Notes to Financial Statements.

Equipment Loan Fund	State Building Program Cigarette Tax	Water Project Fund	Emergency Drought Relief	Water Planning Grant	Other Governmental Funds
$ 2,201,529	1,502,347	-	-	-	6,817,149
-	-	-	2,069,973	-	2,069,973
-	-	-	-	-	-
3,429	115,170	355,666	7,610	15,733	563,104
-	-	-	-	-	161,624
2,204,958	1,617,517	355,666	2,077,583	15,733	9,611,850
7,494	-	-	-	-	37,213
-	19,720	66,607	25,079	7,690	122,905
-	-	73,625	38,910	9,885	122,420
-	-	7,140	2,640	46	9,826
-	-	1,321	656	166	2,143
-	-	27,771	8,172	2,017	37,960
-	-	-	1,760,028	-	1,760,028
7,494	19,720	176,464	1,835,485	19,804	2,092,495
719,000	600,000	-	-	-	1,944,000
251,187	212,450	-	-	-	1,230,614
-	-	-	-	-	-
970,187	812,450	-	-	-	3,174,614
1,227,277	785,347	179,202	242,098	(4,071)	4,344,741
-	-	-	-	-	-
-	(187,296)	-	52,507	1,004,262	869,473
-	-	-	-	-	(2,203,439)
-	(187,296)	-	52,507	1,004,262	(1,333,966)
1,227,277	598,051	179,202	294,605	1,000,191	3,010,775
622,378	2,294,130	17,518,160	-	-	22,918,322
$ 1,849,655	2,892,181	17,697,362	294,605	1,000,191	25,929,097

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2003

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	Bank of New York (New York)	HSBC New York (New York)	Total
Bank Accounts					
Operating account - checking	$ 36,406	-	-	-	36,406
Wire Transfers - checking	1,508	-	-	-	1,508
Repurchase Agreements	-	4,288,901	13,463,159	3,279,691	21,031,751
Total amount of deposits (bank balances)	37,914	4,288,901	13,463,159	3,279,691	21,069,665
FDIC coverage	(100,000)	-	-	-	(100,000)
Total uninsured public funds	(62,086)	4,288,901	13,463,159	3,279,691	20,969,665
Collateral requirement @ 102%	-	4,374,679	13,732,422	3,345,285	21,452,386
Pledges and securities					
FMCL, matures July 1, 2003					
Held at Wells Fargo, Albuquerque					
CUSIP 36225BNF1					
Par $3,138,270	3,293,132	-	-	-	3,293,132
UST, matures May 15, 2017					
Held at Wells Fargo, Albuquerque					
CUSIP 912810DY2					
Par $3,145,000	-	4,741,968	-	-	4,741,968
GNMA, matures March 15, 2032					
Held at Bank of New York, New York					
CUSIP 36225BTC3					
Par $12,777,326	-	-	14,001,686	-	14,001,686
UST, matures November 15, 2004					
Held at Wells Fargo, Albuquerque					
Par $3,470,000					
CUSIP 912833FV7	-	-	-	3,411,982	3,411,982
Over/(under) secured	$ 3,293,132	367,289	269,264	66,697	3,996,382

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES
Year Ended June 30, 2003

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 2,311,895

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditure of federal awards is prepared on the accrual basis of accounting.

NOTE B. FUNDS PASSED THROUGH TO SUBRECIPIENTS

Federal expenditures include funds passed through to subrecipients as follows:

CFDA Number	Subrecipient	Amount
66.468	New Mexico Environment Department	$ 2,004,212

NOTE C. LOANS FUNDED

	Original Balance	Balance at June 30, 2003
Revolving Loans		
Loans funded in previous years	$13,442,613	12,659,591
Loans funded in current year		
West Hammond Domestic	1,040,455	1,011,544
Pendaries Village	1,299,495	1,251,170
City of Albuquerque - Duranes	3,600,000	3,600,000
	5,939,950	5,862,714
Total loans funded	$19,382,563	18,522,305

The revolving loans are funded through a mix of 80% federal and 20% state monies. The technical set-aside loans are funded with 100% federal monies.

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Authority's ability to

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-1 and 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

In our opinion, the Authority complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

NEW MEXICO FINANCE AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2003

Comment	Current Status
02-1 Water/Waste Water Project Grant Fund Unauthorized Signatures	Resolved

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general-purpose financial statements of the New Mexico Finance Authority (Authority).

2. Two reportable conditions were disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards.*

3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.

4. No reportable conditions were disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

6. There were no audit findings relative to the major federal award program for the Authority.

7. The program tested as a major program is:

Program Name	CFDA Number
Capitalization Grants for Drinking Water State Revolving Funds	66.468

8. The threshold for distinguishing Type A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

03-1 Information System Security Policy

Condition

We noted that the Authority's employee handbook contains policies addressing the use of email and the Internet. However, the Authority does not currently have a comprehensive written Information System Security Policy.

Criteria

Formally communicated and comprehensive policies increase employee awareness with respect to the acceptable use of the Authority's computer resources.

Effect

Confidential data may be disclosed, whether intentionally or not. The Authority's computer systems may be compromised, whether intentionally or not.

Cause

The employee manual contains some, but not all, elements of a comprehensive Information System Security Policy.

Recommendation

We recommend that additional policies be drafted covering items such as software copyrights, password confidentiality and confidentiality of data, and that all policies be contained in a single document, either within the employee manual or as a stand-alone Information System Security Policy. We further recommend that such policies be communicated to all employees that have access to systems and data.

Management's Response

Management will draft and implement the additional recommended policies.

B. FINDINGS-FINANCIAL STATEMENT AUDIT (CONTINUED)

03-2 Information System Disaster Recovery Plan

Condition

The Authority does not currently have a comprehensive written Information System Disaster Recovery Plan that identifies key processes, step-by-step recovery procedures and anticipated recovery time frames.

Criteria

Without documented and tested recovery procedures, the Authority may not be able to process critical functions in the event of a disaster. Additionally, efforts for an orderly recovery may be hampered.

Effect

Critical data may be lost, and continuity of data processing processes could be interrupted in the event of a disaster.

Cause

The Authority has grown to the point where more formal plans are needed.

Recommendation

The Authority should develop a written business recovery plan. The business recovery plan should include documented, tested procedures, which, if followed, will ensure the ongoing capabilities of critical resources and continuity of operations. Copies of the plan should be distributed to key members of management and stored off-site.

Management's Response

Management will draft and implement the additional recommended policies.

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

None

NEW MEXICO FINANCE AUTHORITY
EXIT CONFERENCE
June 30, 2003

An exit conference was held on November 25, 2003, and attended by the following:

New Mexico Finance Authority Personnel

James Jimenez, Audit Committee Chair
David W. Harris, Executive Director
Keith H. Mellor, Chief Financial Officer

Neff + Ricci LLP Personnel

Larry Carmony, Partner
Scott Eliason, Senior Manager

Neff + Ricci LLP assisted the Authority in preparing these financial statements.

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APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are extracts, supplementing the information in the body of the Official Statement, of certain provisions of the Indenture. These extracts do not purport to be complete and reference is made to the Indenture for a full and complete statement of such provisions. See "ADDITIONAL INFORMATION."

The following are certain definitions contained in the Indenture and extracts of certain provisions contained in the General Indenture and are not to be considered as a full statement thereof. Reference is hereby made to the Indenture for full details of all of the terms of the Bonds, the security provisions appertaining thereto and the other terms thereof. During the offering period of the Series 2004A Bonds, copies of the Indenture will be available at the principal office of the Underwriters. Subsequent to the offering of the Series 2004A Bonds, copies of the Indenture may be obtained from the Trustee.

CERTAIN DEFINITIONS

"Account" or "Accounts" means one or more of the special trust accounts created and established pursuant to the Indenture.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and as the same may hereafter be amended and supplemented.

"Additional Bonds" means any Bonds of the NMFA, authorized and issued under the Indenture, in compliance with Section 2.10 of the Indenture, except for the Series 1995A-B Bonds.

"Additional Pledged Loans" means any additional loans or securities which (i) were made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund and (ii) the payments of principal and interest on which have been specifically pledged by the NMFA to the payment of the Bonds and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Agreement" or "Agreements" means, as the case may be, one or more Loan Agreements, Grant Agreements or Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of a Project by the NMFA under the General Indenture.

"Agreement Pledged Revenues" means the pledged revenues designated by a Governmental Unit for payments to be made pursuant to the respective Loan Agreement, Security Documents or Securities.

"Agreement Reserve Fund" means the Agreement Reserve Fund established by the Indenture and each Agreement Reserve Account, if any, created by an Agreement therein.

"Agreement Reserve Requirement" for each Agreement establishing an Agreement Reserve Account, means the amount, if any, required by such Agreement to be allocated to an Agreement Reserve Account (relating to such Agreement) within the Agreement Reserve Fund.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax Exempt Bonds.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

CATEGORY OF LOANS AND ADDITIONAL PLEDGED LOANS	APPLICABLE PERCENTAGES
CATEGORY I LOANS AND ADDITIONAL PLEDGED LOANS	100%
CATEGORY II LOANS AND ADDITIONAL PLEDGED LOANS	80%
CATEGORY III LOANS AND ADDITIONAL PLEDGED LOANS	50%
CATEGORY IV LOANS AND ADDITIONAL PLEDGED LOANS	0%

"Authorized Denominations" means, with respect to the Series 2004A Bonds, $5,000 or any integral multiple thereof and with respect to the Loans that are subject to the Fifty-Eighth Supplemental Indenture, $5,000 and any other dollar amount in excess of $5,000.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary or Treasurer, and when used with reference to any act or document also means any other person authorized by resolution of the NMFA to perform such act or execute such documents; (ii) in the case of a Governmental Unit, means the person or persons authorized by resolution or ordinance of the Governmental Unit to perform any act or execute any document; and (iii) in the case of the Trustee or the Paying Agent any person authorized to perform any act or sign any document by or pursuant to the bylaws or any resolution of the governing body of the Trustee or the Paying Agent, respectively.

"Beneficial Owner" means, while DTC or its nominee is the registered owner of the Series 2004A Bonds, any person entitled to receive payment of principal of, premium, if any, and interest on Series 2004A Bonds and otherwise exercise ownership rights with respect to Series 2004A Bonds.

"Bond Counsel" means nationally recognized bond counsel experienced in matters of municipal law, satisfactory to the Trustee and listed in the list of municipal bond attorneys, as published semiannually by The Bond Buyer, or any successor publication.

"Bond Documents" means collectively, the Loan Agreements, the Grant Agreements, the Securities, the Security Documents, and the Indenture.

"Bond Fund" means the fund by that name established by the Indenture to be held by the Trustee and used to pay amounts due on the Bonds.

"Bond Fund Year" means a twelve-month period beginning on June 2 of each year and ending on the next succeeding June 1.

"Bond Registrar" or "Registrar" means the Trustee or any other registrar appointed under the Indenture.

"Bonds" means all Bonds issued and secured under the Indenture.

"Business Day" means any day, other than a day on which banks located in New York, New York or the cities in which the Principal Offices of the Trustee or the Paying Agent are located are required or authorized by law or executive order to close, or on which the New York Stock Exchange is closed.

"Cash Flow Statement" means an NMFA certificate (a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans and Grants or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate:

(A) the amount of NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(B) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(C) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding;

and (b) showing that in each such Bond Fund Year, the aggregate of the amount set forth in clause (A) of the definition divided by 1.35, plus the aggregate amount set forth in clause (B) of the definition, exceeds 100% of the aggregate of the amounts set forth in clause (C) of the definition.

For purposes of the foregoing definition the following assumptions will apply:

(i) NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12 month period in the 24 months next preceding the delivery of the Cash Flow Statement;

(ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(iii) Loans and Additional Pledged Loans will be assumed to remain in their then current category designations throughout the period projected in the Cash Flow Statement.

"Category I Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in at least the third highest full rating category or higher by the Rating Agency.

"Category II Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

"Category III Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are not designated or rated or are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

"Category IV Loans and Additional Pledged Loans" means all Non-Performing Loans and Additional Pledged Loans and Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been fully replenished in accordance with the related Agreement or loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

"Cede" means Cede & Co. and any substitute nominee of DTC who becomes the Registered Owner of any Series 2004A Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and the applicable regulations thereunder.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the NMFA and the Trustee dated the date of issuance and delivery of the Series 2004A Bonds, as originally executed as it may be amended from time to time in accordance with the terms thereof.

"Covenant Default" has the meaning, if any, given in any Loan Agreement, Securities or Additional Pledges Loan.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York.

"Expense Fund" means the fund by that name established by the Indenture to be held by the Trustee.

"Funds and Accounts" means collectively, the Debt Service Fund and the Accounts created therein, the Agreement Reserve Fund and the Accounts created therein, the Program Fund and the Accounts created therein, the Expense Fund, the Rebate Fund and the Accounts created therein, the Revenue Fund, and the Bond Fund.

"Governmental Obligations" means direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Governmental Units" means any "qualified entity" under the Act which has executed and delivered to the NMFA a Loan Agreement, Grant Agreement or Securities for the purpose of financing all or a portion of a Project.

"Grant Agreements" means a grant or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and does not require payments by the Governmental Unit to be made thereunder.

"Grants" means collectively, the Grants made pursuant to the Grant Agreements.

"Indenture" means the General Indenture of Trust and Pledge and all Supplemental Indentures thereto as the same may be amended and supplemented.

"Interest Component" means the portion of each Loan Payment representing interest on the related Loan.

"Interest Payment Date" means, with respect to the Series 2004A Bonds, each June 1 and December 1, beginning June 1, 2004.

"Loan Agreement" means a loan or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and requires the Governmental Unit to repay the amounts advanced.

"Loan Payment" means the payments made by each Governmental Unit pursuant to the provisions of a Loan Agreement or Securities and which are to be used in accordance with the Indenture.

"Loan Payment Date" means the date specified in each Loan Agreement or Securities as the due date for Loan Payments.

"Loans" means collectively, the Loans made pursuant to the Loan Agreements and the Securities; excluding, however, all Additional Pledged Loans. Loans and Additional Pledged Loans may be evidenced by the same document containing two or more separate obligations.

"NMFA Portion of the Governmental Gross Receipts Tax" means an amount equal to 75% of the net receipts attributable to the governmental gross receipts tax levied pursuant to Section 7-9-4.3, NMSA 1978, as amended, and distributed to the NMFA pursuant to Section 7-1-6.38, NMSA 1978, as amended.

"Nonperforming Loans and Additional Pledged Loans" means Loan Agreements and Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a Covenant Default) or under which a delinquency exists in payments of principal or interest thereunder.

"Original Issue Date" means, with respect to the Series 2004A Bonds, the date of delivery thereof.

"Outstanding" or "Bonds outstanding" mean all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) any Bond (or any portion thereof) (i) for the payment or redemption of which there will be held in trust under the Indenture and set aside for such payment or redemption, moneys and/or Governmental Obligations (not callable at the option of the issuer thereof) maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Governmental Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or redemption price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which will be given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

(c) Bonds deemed paid pursuant to the provisions of the Indenture; and

(d) Bonds in lieu of which others have been authenticated pursuant to the Indenture.

"Participants" means underwriters, securities brokers and dealers, banks and trust companies, clearing corporations and other persons from time to time for which DTC or any successor Securities Depository holds Series 2004A Bonds as Securities Depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Paying Agent," when used with respect to the Series 2004A Bonds, means the person or persons authorized by the NMFA to pay the principal of, premium, if any, and interest on, the Series 2004A Bond on behalf of the NMFA, and initially is the Trustee.

"Permitted Investments" (i) with respect to the investment of the respective Accounts of the Program Fund, the Agreement Reserve Fund and the Debt Service Fund has the meaning set forth in each Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Expense Fund and the Rebate Fund or any other fund created under the Indenture, the following to the extent permitted by New Mexico law:

(a) Governmental Obligations;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);

  (i) *Farmers Home Administration* (FmHA) Certificates of Ownership;

  (ii) *Federal Housing Administration* (FHA) Debentures;

  (iii) *General Services Administration* Participation certificates;

(iv) *Government National Mortgage Association* (GNMA or "Ginnie Mae") GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates);

(v) *U.S. Maritime Administration* Guaranteed Title XI financing;

(vi) *U.S. Department of Housing and Urban Development* (HUD) Project Notes and Local Authority Bonds;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself;

(i) *Federal Home Loan Bank System* Senior debt obligations (Consolidated debt obligations);

(ii) *Federal Home Loan Mortgage Corporation* (FHLMC or "Freddie Mac") rated AAA by Standard & Poor's and Aaa by Moody's. Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) *Federal National Mortgage Association* (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) *Student Loan Market Association* (SLMA or "Sallie Mae") Senior debt obligations;

(v) *Resolution Funding Corp.* (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(vi) *Farm Credit System* Consolidated systemwide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm" or "Aam" or by Moody's of "Aaa" including funds from which the Trustee or its affiliates revenue fees for investment advisory or other services to such funds.

(e) Certificates of deposit ("CD") secured at all times by collateral described in (a) and/or (b) above. CD's must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+"or better by S&P, and "Prime-1" or better by Moody's. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

(g) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1+" by S&P;

(j) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the NMFA by the Rating Agency;

(k) Investment contracts with providers the long term, unsecured debt organization of which are rated at least "A" by the Rating Agency; and

(l) deposits with the Treasurer of the State for investment in obligations described above.

"Prepayment" means the amount paid by a Governmental Unit pursuant to the provisions of its Loan Agreement or Securities as a prepayment of all or a portion of the principal balance due under its Loan Agreement or a prepayment of the principal amount of the Securities.

"Principal Component" means the portion of each Loan Payment representing principal on the related Loan.

"Program" means the NMFA's public project revolving fund program.

"Program Costs" means the fees and expenses payable to the Trustee, any Paying Agent and the NMFA.

"Program Fund" means the fund by that name which is created and established by the Indenture.

"Projects" means, collectively, the projects (i) authorized by the Legislature for financing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture and a Loan Agreement, Grant Agreement or Securities.

"Public Project Revolving Fund" means the public project revolving fund established pursuant to the Act.

"Purchasers" means, with respect to the Series 2004A Bonds, RBC Dain Rauscher Inc., Piper Jaffray & Co. and Banc of America Securities, LLC.

"Rating Agency" means Moody's Investors' Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

"Rebate Calculation Date" means, with respect to each Series of Bonds, the interest payment date next preceding the fifth anniversary of the issue date of such Series of Bonds, each fifth anniversary of the Initial Rebate Calculation Date for such Series of Bonds, and the date of retirement of the last bond for such Series.

"Rebate Fund" means the Fund so designated, which is created and established by the Indenture.

"Rebate Requirement" means the amount of arbitrage profits earned from the investment of gross proceeds of the Bonds in nonpurpose investments described in Section 148(f)(2) of the Code and defined as "Rebate Amount" in Section 1.148-3 of the Treasury Regulations, which are payable to the United States at the times and in the amounts specified in Section 148(f)(3) of the Code and Section 1.148-3 of the Treasury Regulations.

"Register" means the record of ownership of the Series 2004A Bonds maintained by the Registrar.

"Registered Owner" or "Bondowner" or "Owner" or "Bondholder" or "holder" means the person or persons in whose name or names a Bond will be registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture.

"Regular Record Date" means the fifteenth (15th) day immediately preceding each Interest Payment Date (or the Business Day immediately preceding such fifteenth (15th) day, if such fifteenth (15th) day is not a Business Day).

"Representation Letter" means the blanket representations letter from the NMFA to DTC in substantially the form attached to the Fifty-Eighth Supplemental Indenture of Trust as Exhibit "B."

"Revenue Fund" means the Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund so designated, which is created and established by the Indenture to be held by the Trustee.

"Revenues" means (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund).

"Securities" means the securities purchased or acquired by the NMFA in consideration for a Loan made pursuant to the Indenture.

"Securities Depository" means the person who operates the computerized book entry system through which ownership interest in the 2004A Bonds may be recorded. Such entity shall at all times be a registered clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and in good standing thereunder.

"Security Documents" means the intercept agreements or other security documents delivered by Governmental Units to provide additional security for a Loan Agreement or Securities.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefore.

"Series 1995 Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1995A, in an initial aggregate principal amount of $41,230,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 1995B, in an initial aggregate principal amount of $4,000,000.

"Series 1996 A & B Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1996A, in an initial aggregate principal amount of $17,625,000 and the Public Project Revolving Fund Revenue Bonds Taxable Series 1996B, in an initial aggregate principal amount of $3,500,000.

"Series 1997 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 1997, in an initial principal amount of $8,585,000.

"Series 1999A-D Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1999A, in an initial aggregate principal amount of $13,135,000, the Public Project Revolving Fund Revenue Bonds, Series 1999B, in an initial aggregate principal amount of $3,025,000, the Public Project Revolving Fund Revenue Bonds, Taxable Series 1999C, in an initial aggregate principal amount of $2,265,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 2000 in an initial aggregate principal amount of $4,875,000.

"Series 2000A Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 2000A, in an initial aggregate principal amount of $4,715,000.

"Series 2000B-C Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2000B, in an initial aggregate principal amount of $7,670,000 and the Public Project Revolving Fund Revenue Bonds, Series 2000C, in an initial aggregate principal amount of $28,850,000.

"Series 2002A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2002A, in an initial aggregate principal amount of $55,610,000.

"Series 2003A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2003A, in an initial principal amount of $39,945,000.

"Series 2003B Bonds" means the Public Project Revolving Fund Revenue Refunding Bonds, Series 2003B, in an initial principal amount of $25,370,000.

"Series 2004A Bonds" means, collectively, the Series 2004A-1 Bonds and the Series 2004A-2 Bonds.

"Series 2004A-1 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004A-1, bearing interest at the rates herein described and in the aggregate principal amount of $28,440,000.

"Series 2004A-2 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004A-2 (Taxable), bearing interest at the rates herein described and in the aggregate principal amount of $14,365,000.

"Special Record Date" means a special record date established pursuant to the Indenture.

"State" means the State of New Mexico.

"Supplemental Indenture" means any supplemental indenture approved by the NMFA in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture.

"Trust Estate" means the property held in trust by the Trustee pursuant to the Granting Clauses of the Indenture.

"Trustee" means Bank of Albuquerque, N.A., Albuquerque, New Mexico and its successors and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Trustee at the time serving as successor Trustee under the Indenture.

THE INDENTURE

Registration and Exchange of Bonds

Books for the registration and for the transfer of the Bonds will be kept by the Trustee which is appointed the Bond Registrar with respect to the Bonds. Any Bond may, in accordance with its terms, be transferred only upon the registration books kept by the Bond Registrar, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Registrar, duly executed. No transfer will be effective until entered on the registration books kept by the Registrar. Upon surrender for transfer of any fully registered Bond at the principal corporate trust office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing and satisfactory to the Trustee, the NMFA will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees a new, fully registered Bond or Bonds for a like aggregate principal amount. Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series and the same maturity. The execution by the NMFA of any Bond of any authorized denomination will constitute full and due authorization of such denomination, and the Trustee will thereby be authorized to authenticate and deliver such Bond. The NMFA and the Trustee will not be required to transfer or exchange any Bond of a particular Series (i) during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date, (ii) during the period from and including the day fifteen days prior to any Special Record Date, to and including the date of the proposed payment pertaining thereto, (iii) during the period from and including the day fifteen days prior to the mailing of notice calling any Bonds of a particular Series for redemption, to and including the date of such mailing, or (iv) at any time following the mailing of notice calling such Bond for redemption.

The NMFA, the Bond Registrar and the Paying Agent may treat and consider the person in whose name each Bond is registered on the registration books kept by the Registrar as the holder and absolute owner thereof for the purpose of receiving payment of, or on account of, the principal or redemption price thereof and interest due thereon and for all other purposes whatsoever, and neither the NMFA, nor the Bond Registrar nor the Paying Agent will be affected by any notice to the contrary. Payment of or on account of either principal of or interest on any Bond will be made only to or upon order of the Registered Owner thereof or such person's legal representative, but such registration may be changed as hereinabove provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

The Trustee will require the payment by the Registered Owner requesting exchange or transfer, only of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

Nonpresentment of Bonds

In the event that any Bond are not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond are made available to the Trustee for the benefit of the holder or holders thereof, all liability of the NMFA to the holder thereof for the payment of such Bond will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds, without liability to the holders of such Bonds for interest thereon, for the benefit of the holder of such Bond who will thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond. Moneys so deposited with the Trustee which remain unclaimed four (4) years after the date payment thereof becomes due will, to the extent authorized by applicable law, at the request of the NMFA and if the NMFA is not at the time to the knowledge of the Trustee in default with respect to any covenant contained in the Indenture and if to the knowledge of the Trustee there has been no Event of Default, be repaid to the NMFA and the Owners of the Bonds for which the deposit was made will thereafter be limited to a claim against the NMFA; provided that the Trustee, before making payment to the NMFA, may cause a notice to be given to the Owners of the Bonds at their registered addresses, stating that the moneys remaining unclaimed will be returned to the NMFA after a specified date. Upon payment of such amounts to the NMFA by the Trustee, the NMFA will deal with such money as required by applicable law.

Covenants of the NMFA

The NMFA will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or Supplemental Indenture or in any Bond, including the following covenants and agreements:

Covenant Against Creating or Permitting Liens. Except for the pledge of the Trust Estate to secure payment of the Bonds, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto; provided, however, that (i) nothing contained in the Indenture will prevent the NMFA from issuing, if and to the extent permitted by law, indebtedness having a lien on the Trust Estate subordinated to that of the Bonds and (ii) Revenues constituting NMFA Portion of the Governmental Gross Receipts Tax and payments of Additional Pledged Loans not needed for payments under the Indenture in any Bond Year may be released to the NMFA free and clear of the lien as provided in the Indenture.

Existence; Compliance with Laws. The NMFA will take no action to discontinue maintenance of its existence nor to impair its rights, powers, privileges, and franchises, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements, and directions of any legislative, executive, administrative, or judicial body which may relate to the execution and delivery of the Bonds and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Grant Agreements, Security Documents and Securities; Exceptions, Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Grant Agreements, Security Documents and Securities except as specifically authorized in the Indenture in furtherance of the security for the Bonds; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan Agreement, Grant Agreement, Securities, or Additional Pledge Loan and complied with the other provisions thereof, the NMFA and the Trustee may release such Agreement or Additional Pledge Loan and any Security Documents from the pledge created under the Indenture; and (ii) the NMFA may direct the release of any Agreement or Additional Pledged Loan from the lien and pledge of the Trust Estate under the Indenture upon the delivery to the Trustee of a Cash Flow Statement reflecting such release. Except to the extent otherwise provided in the Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners may be impaired and will, from time to time, execute and deliver such further instruments and will take such further action as may be required to carry out the purposes of the Indenture.

Financing Statements. The NMFA and the Trustee will cause the Indenture to be filed as a financing statement with the Secretary of State of the State, in such manner and at such places as may be required by law fully to protect the security interest of the Owners in the Bonds and the right, title, and interest of the Trustee in and to the Trust Estate. From time to time, the Trustee may, but will not be required to, obtain an opinion of counsel setting forth what, if any, actions by the NMFA or Trustee should be taken to preserve such security. The NMFA will execute or cause to be executed any and all further instruments as may reasonably be requested by the Trustee for such protection of the interests of the Registered Owners, and will furnish satisfactory evidence to the Trustee that such actions have been taken and will take such other action as is necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds executed and delivered under the Indenture has been paid. The Trustee will execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as it may be advised by an opinion of Counsel may be necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the Principal of and interest on the Bonds have been paid.

Rights Under Loan Agreements; Grant Agreements, Security Documents and Securities. The Loan Agreements, Grant Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions of the Indenture, the Loan Agreements, Grant Agreements, Security Documents and Securities may not be effectively amended, changed, modified, altered or terminated without the prior written consent of the Trustee in accordance with the Indenture, and reference is made to the same for a detailed statement of said covenants and obligations of the Governmental Units thereunder.

Bonds to be Tax-Exempt Obligations. The NMFA covenants and agrees to and for the benefit of the Owners of Bonds that the NMFA (i) will not take any action that would cause interest on the Bonds to become subject to federal income taxation, (ii) will not omit to take or cause to be taken, in timely manner, any action, which omission would cause the interest on the Tax-exempt Bonds to become subject to federal income taxation, and (iii) will, to the extent possible, comply with any other requirements of federal tax law applicable to the Bonds in order to preserve the exemption from federal income taxation of interest on the Bonds. The provisions of this paragraph do not apply to Bonds designated in the related Supplemental Indenture as bearing or accruring interest intended to be subject to Federal income taxation.

State Pledge of Non-Impairment. The State has pledged to and agreed with the Bondholders (as an obligation issued under the Act) that the State will not limit or alter the rights vested in the NMFA under the Act to fulfill the terms of the Indenture with the Bondholders or in any way impair the rights and remedies of those holders until the Bonds together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Deposit and Advance of Funds

The NMFA and the Trustee will deposit the proceeds of the Bonds to the Accounts created under the Indenture and will make the advances of funds thereunder to fund the Program and the NMFA will enter into the Loan Agreements and Grant Agreements with the Governmental Units and purchase and receive the Securities and Security Documents from the Governmental Units on the terms and conditions and upon submission of the documents as provided in the Indenture.

Loan Agreement and Securities - Loan Payments

The Loan Payments will be governed by the following provisions:

(a) Principal, Program Costs and Interest Components. A portion of each Loan Payment is paid as, and represents payment of, interest (the "Interest Component") on the related Loan and payment of a Program Cost component relating to each loan (the "Program Cost Component") and the balance of each Loan Payment is paid as, and represents payment of, principal (the "Principal Component") on the related Loan, all as set forth in the related Loan Agreement or Securities. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on each Loan Payment Date. The Interest Component of Loan Payments for each Loan Agreement will be the amount of interest based on a 360 day year comprised of twelve 30-day months, unless otherwise specified in the related Supplemental Indenture. The Program Cost Component may be included in the interest rate borne by a Loan.

(b) Loan Agreement and Securities Term. The "Term" of a Loan Agreement or Securities will be defined in the Loan Agreement or Securities. The Term will not exceed the useful life of the Project financed pursuant to the related Loan Agreement or Securities.

(c) Agreement Payment. Each Loan Agreement and Security will provide that the related Governmental Unit will pay Loan Payments directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less a 0.25% administration fee retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date. In the case of Securities, the Securities will be registered in the name of the Trustee or properly assigned to the Trustee on the books of any registrar for such Securities or, if in bearer form delivered to and held by the Trustee.

(d) Prepayments. The Loan Agreements and Securities may contain a provision permitting the Governmental Unit to prepay the Principal Component of the Loan Payments, in accordance with the provisions of the Loan Agreement and Securities by payment of Prepayments in whole on any date or in part on any Interest Payment Date, at any time when the related Series of Bonds are or are about to become subject to optional redemption upon not less than forty-five (45) days' prior written notice to the Trustee and subject to any other conditions set forth in the related Supplemental Indenture, Loan Agreement or Securities. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination. Each Prepayment will include interest to the date upon which the Trustee has scheduled a related redemption of Bonds as provided in the related Supplemental Indenture.

(e) Use of Reserve at Final Payment. At the time of payment in full of each Loan Agreement or Securities, the applicable Agreement Reserve Account in the Agreement Reserve Fund will be applied toward the final payment of amounts due under the related Loan Agreement or Securities.

Establishment of Funds and Accounts

There is established in the Indenture with the Trustee the following funds and accounts within funds, each of which will be held, for the term of the Indenture, in Accounts segregated from all other moneys of the Trustee or the NMFA.

(a) a Program Fund and within such fund a separate Account for each Agreement;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement, which separate Account is established and maintained by the NMFA;

(c) a Bond Fund;

(d) an Agreement Reserve Fund and within such fund, a separate Account for each Agreement which contemplates the establishment of an Agreement Reserve Account;

(e) an Expense Fund;

(f) a Rebate Fund and within such fund a separate Account for each Agreement; and

(g) a Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund (herein the "Revenue Fund") established as an account of the Public Project Revolving Fund.

In addition to the foregoing, with respect to Additional Pledged Loans the Trustee may, as directed in a Supplemental Indenture, establish subaccounts within the Program Fund, the Agreement Reserve Fund or the Debt Service Fund for such Additional Pledged Loans.

Flow of Funds

All Funds will be accounted for and maintained by the NMFA in the Funds and Accounts established in the Indenture. Each Fund and Account will be kept separate and apart from all other Funds and Accounts of the NMFA. The Funds will be expended and used by the Trustee and the NMFA only in the manner of order and priority specified below:

Program Fund. Upon the issuance of a Series of Bonds the Trustee will deposit an amount specified in the related Supplemental Indenture in the Program Fund and will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement. Disbursements from each Account within the Program Fund may be made in stages. Disbursements from each Account within the Program Fund with respect to an Agreement with a Governmental Unit will (except for amounts to be used for capitalized interest on the Loan and as may be directed in a Supplemental Indenture with respect to Grants) only be made upon the delivery to the Trustee of a requisition substantially in the form attached to each Agreement signed by an Authorized Officer of the Governmental Unit.

Application of Loan Payments. The flow of funds is discussed in the forepart of this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS - Flow of Funds."

Pursuant to the Supplemental Indenture authorizing the Series 2000A Bonds, the payments required to be made by the 2000A Governmental Unit pursuant to the 2000A Agreement are to be paid directly to the Trustee from the New Mexico Taxation and Revenue Department pursuant to an Intercept Agreement between NMFA and the 2000A Governmental Unit, and the Trustee is to deposit all such payments immediately upon receipt thereof as follows:

(i) moneys identified by the NMFA as being from the receipt of the Correctional Facility Tax will be deposited into the Series 2000A Correctional Facility Tax Account and moneys identified by the NMFA as being from the receipt of the 2000A Governmental Unit Gross Receipts Tax will be deposited into a Series 2000A Governmental Unit Gross Receipts Tax Account, both in the Series 2000A Tax Revenue Fund;

(ii) moneys on deposit in the Series 2000A Correctional Facility Tax Account will be applied as follows:

First: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent moneys are available for such purpose, to the payment of Program Costs;

Third: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Agreement Reserve Fund until such time as the balance on deposit in said Account equals the Agreement Reserve Requirement of such Account; and

Fourth: to the extent moneys are available for such purpose, to the Series 2000A Correctional Facility Tax Redemption Fund to annually redeem Series 2000A Bonds on or as soon as is reasonably practicable after June 2 from moneys deposited prior to the preceding June 1 in accordance with the Supplemental Indenture. Any excess Correctional Facility Tax revenues not applied to redemption will be returned to the 2000A Governmental Unit Debt Service Account.

(iii) moneys on deposit in the Series 2000A Governmental Unit Gross Receipts Tax Account will be applied as follows:

First: to the extent moneys from the Series 2000A Correctional Facility Tax Account deposited into the 2000A Governmental Unit Debt Service Account and the 2000A Governmental Unit Agreement Reserve Account in the Agreement Reserve Fund are insufficient to meet the then required principal and interest payments due or to next become due with respect to the 2000A Agreement, to the 2000A Governmental Unit's Debt Service Account the amount necessary to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent money from the Series 2000A Correctional Facility Tax Account are insufficient to pay the 2000A Governmental Unit's share of Program Costs, an amount necessary to pay such Program Costs; and

Third: to the 2000A Governmental Unit, the balance of the moneys remaining in the Series 2000A Governmental Unit Gross Receipts Tax Account as soon as reasonably practicable after June 2 of each year.

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement), will be deposited in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement, provided, however, that all earnings received on the Governmental Unit's Accounts will be allocated solely to the benefit of such Governmental Unit. The Trustee will notify the Governmental Unit at least fifteen (15) days prior to the due date of its next payment of Loan Payments of the amount of earnings so allocated.

In the event that the Trustee receives Prepayments under a Loan Agreement or Securities, the Trustee will apply such Prepayments to the mandatory redemption of the Bonds or portions thereof in accordance with the related Supplemental Indenture.

At least once a year the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) to pay the Governmental Unit's share of Program Costs for the year, and will return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; provided, however, that with respect to Loans relating other than to the Series 2000 Bonds, any such excess will be disbursed as follows:

(a) Any excess attributable to earnings on funds and accounts for the Governmental Unit will be returned to the Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; and

(b) Any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the relevant Bonds will be deposited into the Revenue Fund; and, provided further, however, that with respect to the Series 2000A Loan Agreement, any such excess will be disbursed as provided in the second paragraph under this heading "Application of Loan Payments" above.

Amounts on deposit in the respective Account of the Agreement Reserve Fund in excess of the related Agreement Reserve Account Requirement will be transferred at least annually to the related Accounts of the Debt Service Fund and credited against payments next coming due under such Loan Agreement or Securities.

Amounts on deposit in the respective Account of the Agreement Reserve Fund will be applied toward the final payment of amounts falling due under the related Loan Agreement or Securities.

As provided in an Agreement, a Governmental Unit may (i) fund an Account in the Agreement Reserve Fund over time from deposits made by or on behalf of the Governmental Unit or (ii) may use any reserve fund surety or similar investments in lieu of a cash deposit to the Agreement Reserve Fund.

Amounts on deposit in each Agreement Reserve Account, if any, secure only the payments to be made under the related Agreement and may not be applied toward payments under any other Agreement or toward payment of the Bonds, except to the extent that amounts are due and owing under the related Agreement and amounts are not otherwise available for such payments in related Account of the Debt Service Fund.

All moneys held by the Trustee in the Bond Fund will be applied in accordance with the Indenture to pay the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and the interest on Bonds as it becomes payable. There will be deposited into the Bond Fund all accrued interest received, if any, at the time of the execution, sale and delivery of the Bonds.

Amounts remaining on deposit in the Bond Fund at the end of each Bond Fund Year and after payment of all amounts due on the Bonds for such Bond Fund Year will be transferred to the Revenue Fund.

Investment of Moneys

Any moneys held as part of a Governmental Unit's Account in any of the Funds established under the Indenture will be invested and reinvested by the Trustee at the direction of the related Governmental Unit in Permitted Investments in accordance with the following provisions.

Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due. In the absence of an appropriate direction from a Governmental Unit as to investment of funds, the Trustee will invest and reinvest such amounts in a daily money market fund which invests only in United States Government Obligations.

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established under the Indenture or (ii) by the NMFA as agent for the Trustee will be invested and reinvested by the NMFA or the Trustee, as the case may be, at the direction of the related Governmental Unit in Permitted Investments as directed by the Loan Agent or the Securities and in accordance with the following provisions.

The Trustee or the NMFA will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund or the Bond Fund will be invested and reinvested by the Trustee at the direction of the NMFA only in Permitted Investments in accordance with the Indenture. Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of the investments on deposit in the Bond Fund whenever the cash balance in the Bond Fund is insufficient to pay the principal of and premium, if any, and interest on the Bonds when due.

All such investments will at all times be a part of the account or fund from where the money used to acquire such investments was deposited and all gains thereon will be credited to, and losses thereon will be charged against, such accounts or funds except as expressly provided to the contrary in the Indenture.

All investments will mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the owner on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

The principal of the investments and the interest, income, and profits received in respect thereof will be applied as follows:

(i) all interest, income, and profits received in respect of the investment of the amounts on deposit in a Governmental Unit's Account in any of the Funds established under the Indenture will (after deduction of any losses) be retained in the applicable Governmental Unit's Account from which the investment was derived (except as otherwise required with respect to the Agreement Reserve Fund and deposits to be made to the Rebate Fund); and

(ii) all interest, income, and profits received in respect of the investment of the amounts on deposit in the Revenue Fund, the Rebate Fund or the Bond Fund will (after deduction of any losses) be retained in such Fund; and

(iii) whenever any other transfer or payment is required to be made from any particular Fund or Account, such transfer or payment will be made from such combination of maturing principal, redemption, or repurchase prices, liquidation proceeds, and withdrawals of principal as the Trustee deems appropriate for such purpose, after taking into account such factors as future transfers or payments from the Fund or Account in question, the reinvestment opportunities for maturing principal, the current yield on any permitted investments to be redeemed, withdrawn, or sold, and any penalties, gains, or losses to be realized upon any such redemption, withdrawal, or sale.

The Trustee will not be accountable for any depreciation in the value of the Permitted Investments or any losses incurred upon any authorized disposition thereof.

Method and Frequency of Valuation. In computing the amount in any Fund or account, Permitted Investments will be valued at least annually at cost, including commissions and accrued interest but excluding interest accrued following acquisition.

Defeasance

When there has been paid, or provisions for payment have been made to or for the holders and Owners of the Bonds, the principal of and premium, if any, and interest due or to become due on the Bonds at the times and in the manner stipulated therein, and if there has been paid to the Trustee and any paying agents all sums of money due or to become due according to the provisions of the Indenture, then the estate and rights granted by the Indenture will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture and on demand of the NMFA will execute such documents to evidence such release as will be reasonably required by the NMFA and will turn over to the NMFA all balances held by the Trustee under the Indenture (other than amounts required for return to the Governmental Units as provided in the Indenture).

Any Bond will be deemed to be paid within the meaning of and for all purposes of the Indenture when (a) payment of the principal of and the applicable premium, if any, on such Bond, whether at maturity or prior redemption plus interest thereon to the due date thereof, either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent has irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment, and/or (2) noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond is deemed to be paid under the Indenture, as aforesaid, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or noncallable Governmental Obligations.

Notwithstanding anything in the Indenture to the contrary, all moneys so deposited with the Trustee (or other escrow agent) as provided in the defeasance provisions of the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amount and at times as hereinbefore set forth, and all income from all noncallable Governmental Obligations in the hands of the Trustee which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys have been so deposited, will be deposited in the Revenue Fund as and when realized and collected for use and application as are other moneys deposited in that fund.

All moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the defeasance provisions of the Indenture for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and noncallable Governmental Obligations have been so set aside in trust.

Neither the obligations nor the moneys deposited with the Trustee (or other escrow agent) pursuant to the defeasance provisions of the Indenture will be withdrawn or used for any purpose other than, and will be segregated and held in trust for, the payment of the principal or redemption price of, and interest on, the Bonds or portions thereof

Whenever moneys or obligations are deposited with the Trustee (or other escrow agent) for the payment or redemption of any Bonds more than sixty (60) days prior to the date that such Bonds are to mature or be redeemed, the Trustee will mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held, to all Owners of Bonds for the payment of which such moneys or obligations are being held.

Notwithstanding anything in the Indenture to the contrary, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the defeasance provisions of the Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture will be made without the consent of the Registered Owner of each Bond affected thereby.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on any Series of Bonds is paid by a bond insurer with respect to such Series of Bonds pursuant to a municipal bond insurance policy, the Bonds of such Series will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the NMFA, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the NMFA to the Registered Owners and related Security Instrument Issues of such Series of Bonds will continue to exist and will run to the benefit of such bond insurer, and such bond insurer will be subrogated to the rights of such Registered Owners and related Security Instrument Issues of such Series of Bonds.

Default Provisions and Remedies of the Trustee and Owners

Events of Default Defined. Each of the following events is an "Event of Default" under the Indenture:

(a) if payment of any installment of interest on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable; or

(b) if payment of the principal of or the redemption premium, if any, on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any fund hereunder or otherwise; or

(c) if the NMFA is for any reason rendered incapable of fulfilling its obligations under the Indenture; or

(d) if an order or decree is entered, with the consent or acquiescence of the NMFA, appointing a receiver or custodian for any of the Revenues of the NMFA, or approving a petition filed against the NMFA seeking reorganization of the NMFA under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the NMFA will not be vacated or discharged or stayed on appeal within 30 days after the entry thereof, or

(e) if any proceeding is instituted, with the consent or acquiescence of the NMFA, for the purpose of effecting a composition between the NMFA and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Revenues; or

(f) if (i) the NMFA is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the NMFA, a receiver, Trustee or custodian of the NMFA or of the whole or any part of their property and any of the aforesaid adjudications, orders, judgments or decrees is not vacated or set aside or stayed within 60 days from the date of entry thereof; or

(g) if the NMFA files a petition or answer seeking reorganization, relief or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the NMFA or of the whole or any substantial part of the property of the NMFA, and such custody or control is not terminated within 30 days from the date of assumption of such custody or control; or

(i) if the NMFA defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture or any Supplemental Indenture on the part of the NMFA to be performed, other than as set forth above in this section and such Default continues for 30 days after written notice specifying such Event of Default and requiring the same to be remedied has been given to the NMFA by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Remedies of the Trustee. If an Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce the rights of the Owners of the Bonds under the Indenture, including enforcing any rights under the Agreements and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds against the NMFA and any related Governmental Unit, and compel the NMFA and any related Governmental Unit, to perform or carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Indenture or in any Agreement (including the appointment of a receiver); or

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) intervene in judicial proceedings that affect the Bonds, the Agreements, or the security therefor; or

(d) exercise any or all remedies permitted under the Agreements or Security Documents; or

(e) cause the NMFA or any related Governmental Unit to account as if it were the Trustee of an express trust for all of the Revenues or Agreement Pledged Revenues, pledged under the Indenture or pursuant to the Agreements and any Security Documents.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by the Indenture may be enforced and exercised from time to time and as often as may be deemed expedient by the Trustee or the Owners.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners, the NMFA, and the Governmental Units will be restored to the former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Owners under the Indenture is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be extended without exhausting and without regard to any other remedy conferred by any law.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and the performance of the other agreements and covenants required to be performed by it contained in the Agreements and Security Documents, the Governmental Units will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Loan Payments, by the Trustee, or with respect to the performance by the NMFA of any right or obligation required to be performed by it contained in the Indenture or for the performance by any other Governmental Unit of such other Governmental Unit's obligations under an Agreement or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, for the appointment of a receiver or Trustee or for any other remedy, at law or in equity, unless:

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Owners of not less than a majority of the aggregate principal amount of the Bonds Outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;

(c) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

No one or more Owners has any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Bond Owners. Notwithstanding the foregoing, the Owner of any Bond has the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms of the Bonds and the Indenture and the principal of such Bond at the stated maturity of the Bonds and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights will not be impaired without the consent of such Owner.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee, provided that such direction is not in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Owners of Bonds.

Application of Funds Upon Default. All moneys received by the Trustee or by any receiver pursuant to any right given or action taken under the default provisions of the Indenture or under the provisions of the related Agreements, will, after payment of the reasonable costs and fees of, and the reasonable expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and all moneys so deposited during the continuance of an Event of Default (other than moneys deposited to the Bond Fund for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default), together with all moneys in the Funds maintained by the Trustee or the NMFA under the Indenture, will be applied as follows:

(a) Unless the principal of all Bonds shall have become due and payable, all such moneys will be applied, as follows:

First: To the payment to the persons or entity entitled thereto of all installments of interest then due on the Bonds, in the order of maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons or entity entitled thereto without any discrimination or privilege;

Second: To the payment to the persons or entity entitled thereto of the unpaid principal of and any of the Bonds which have become due (other than Bonds called for prepayment for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons or entities entitled thereto without any discrimination or privilege; and

Third: To be held for the payment to the persons entitled thereto as the same become due of the principal of, the premium, if any, and interest on the Bonds which may thereafter become due at maturity and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds becomes due and payable all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with the interest on overdue principal, as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other certificates, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee may determine, having due regard for the amount of such moneys available for such application in the future. Whenever the Trustee applies such moneys it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such date and of the Special Record Date in accordance with the Indenture. The Trustee will not be required to make payment to the holder of any unpaid Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and will do so upon the written request of the Registered Owners of (a) a majority in aggregate principal amount of all the Bonds then outstanding in respect of which Default in the payment of principal and interest exist, or (b) a majority in aggregate principal amount of the Bonds then Outstanding in the case of any other Event of Default; provided, however, that there will not be waived (i) any Event of Default in the payment of the principal of any Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such Event of Default has occurred on overdue installments of interest and all arrears of payments of principal and premium, if any, when due and all expenses of the Trustee, in connection with such Event of Default has been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the NMFA, the Trustee and the Registered Owners will be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any right consequent thereon.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The NMFA and the Trustee may, without consent of, or notice to, any of the Owners enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To provide for the issuance of Additional Bonds in accordance with the provisions of the Indenture;

(b) To cure any ambiguity or formal defect or omission in the Indenture;

(c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;

(d) To subject to the Indenture additional revenues, properties or collateral;

(e) To evidence the appointment of a separate Trustee or paying agent or the succession of a new Trustee or paying agent under the Indenture;

(f) To make any other change which in the judgment of the Trustee is not materially adverse to the interests of the Trustee or any of the Owners;

(g) To make any amendments with the prior written confirmation from of the Rating Agency that such amendments will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; and

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred upon the NMFA in the Indenture or any Governmental Unit or to grant additional powers or rights to the Trustee.

Supplemental Indentures Requiring Consent of Owners. Exclusive of supplemental indentures covered by the foregoing section and subject to the following terms and provisions and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing in this section or in the foregoing section will permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond, or (ii) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indentures, or (v) permit the creation of any lien ranking prior to the lien of the Indenture on the Trust Estate or any part thereof, or (vi) deprive the Owner of any Bond then outstanding of the lien created by the Indenture on the Trust Estate without the prior consent of 100% of the holders of the Bonds affected by such supplemental indenture. The Trustee may, but is not obligated to, enter into any such supplemental indenture which adversely affects the Trustee's rights, duties or immunities under the Indenture or the Agreements.

If at any time the NMFA requests the Trustee to enter into any such supplemental indenture for any of the purposes of this section, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be given by registered or certified mail to the owner of each Bond shown by the list of Owners kept at the office of the Trustee. Such notices will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners. If, within one hundred twenty (120) days or such longer period as the holders of not less than a majority in aggregate principal amount of the Bonds outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Governmental Units from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided, the Indenture will be and be deemed to be modified and amended in accordance therewith.

Amendment of Agreements and Security Documents.

(a) The NMFA will have the right to amend an Agreement and any existing Security Documents with the Consent of the Trustee and the related Governmental Unit without Bond Owners' consent, for one or more of the following purposes:

(i) to add additional covenants of the NMFA or the related Governmental Unit, as applicable, or to surrender any right or power conferred upon the NMFA or the related Governmental Unit;

(ii) to make any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment;

(iii) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained therein or in any amendment thereto which may be defective or inconsistent with any other provision contained therein or in the Indenture or in any amendment thereto or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under any Agreement, or Security Documents which in the judgment of the Trustee do not adversely affect the interests of the Owners of Bonds; or

(iv) to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

(b) If the NMFA or a Governmental Unit propose to amend an Agreement or related Security Documents in a manner not contemplated by (a) above the Trustee will notify the Owners of the Bonds of the proposed amendment and may consent thereto with the consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding.

Fees, Charges and Expenses of the Trustee

Upon an Event of Default, but only upon an Event of Default, the Trustee will have a right of payment prior to payment on account of interest or principal of, or premium, if any, on any Bond for the Trustee's advances, fees, costs and expenses incurred.

APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic information is furnished for information only. The Bonds do not constitute a general obligation of the State and are special obligations of NMFA payable solely from the Trust Estate. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004A Bonds do not constitute or give rise to a pecuniary liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS."

Generally

The State of New Mexico (the "State") was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 60% (mornings) to 30% (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per them and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990's, the State was the 12th fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent.

Most of this population growth is occurring in or near the large cities. There are three Metropolitan Statistical Areas (MSAs) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval and Valencia

Counties; the Las Cruces MSA is in Doña Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Doña Ana.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. In Fiscal Year 2001, the value of energy resources production (crude petroleum, natural gas and coal) was approximately $10.6 billion. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table presents data on employment for the State by industry compiled by the New Mexico Department of Labor for the first quarter of 2003.

Employment by Industry Group
First Quarter, 2003

Industry	Employment
Agriculture, Forestry, Fishing & Hunting	9,707
Mining	13,815
Utilities	5,983
Construction	48,204
Manufacturing	36,282
Wholesale Trade	22,247
Retail Trade	89,893
Transportation and Warehousing	22,956
Information	17,573
Finance and Insurance	22,412
Real Estate and Rental and Leasing	10,540
Professional and Technical Services	41,496
Management of Companies and Enterprises	5,164
Administrative and Waste Services	44,718
Educational Services	77,030
Health Care and Social Assistance	97,956
Arts, Entertainment and Recreation	17,452
Accommodation and Food Services	72,538
Other Services, Except Public Administration	20,768
Government and Government Enterprises	55,927

State of New Mexico
Wages and Salaries by Industry Sector, 2001-2002
(thousands of dollars)

	New Mexico		United States	
	2002	2001	2002	2001
'arm Total	194,395	182,136	19,631,005	18,393,000
Ion Farm Private				
'orestry, Fishing, Related Activities & Other	65,302	58,034	13,856,755	12,842,000
/lining	674,800	737,271	31,019,757	32,427,000
Jtilities	217,184	230,642	40,197,757	39,647,000
:onstruction	1,456,455	1,510,075	276,883,002	276,316,000
/lanufacturing	1,463,157	1,578,293	676,774,514	710,537,000
Vholesale Trade	861,993	838,244	281,930,007	285,057,000
:etail Trade	1,972,828	1,925,384	360,991,760	356,105,000
'ransportation and Warehousing	679,260	657,606	163,511,767	165,916,000
nformation	544,864	568,497	191,685,258	209,122,000
inance and Insurance	865,333	819,338	371,872,003	375,226,000
.eal Estate and Rental and Leasing	317,103	254,904	72,539,004	70,568,000
rofessional and Technical Services	2,171,318	2,081,419	417,234,756	431,297,000
lanagement of Companies and Enterprises	239,706	244,489	118,525,005	120,940,000
.dministrative and Waste Services	1,051,048	1,011,363	199,546,007	196,738,000
ducational Services	200,853	193,847	73,345,005	68,473,000
:ealth Care and Social Assistance	2,347,656	2,086,601	480,147,756	448,149,000
rts, Entertainment and Recreation	126,709	121,818	49,223,756	47,390,000
.ccommodation and Food Services	870,774	827,541	148,289,007	144,057,000
ther Services, Except Public Administration	614,791	596,075	139,063,753	138,002,000
overnment and Government Enterprises	7,060,720	6,514,529	842,085,775	800,148,000
on Farm Private Total	(not available)	22,855,970	(not available)	4,928,957,000
OTAL	**23,996,249**	**23,038,106**	**4,968,353,409**	**4,947,350,000**

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

State of New Mexico
Civilian Labor Force, Employment and Unemployment in New Mexico and the United States, 1993-2002

	Civilian Labor Force (000)		Number Employed (000)		Unemployment Rate		
Year	N.M.	U.S.	N.M.	U.S.	N.M.	U.S.	NM as % of U.S. Rate
1993	756	129,200	698	120,259	7.7%	6.9%	112%
1994	778	131,056	729	123,060	6.3%	6.1%	103%
1995	791	132,304	741	124,900	6.3%	5.6%	113%
1996	798	133,943	734	126,708	8.1%	5.4%	150%
1997	814	136,297	763	129,558	6.3%	4.9%	129%
1998	831	137,673	780	131,463	6.2%	4.5%	138%
1999	809	139,368	764	133,488	5.6%	4.2%	133%
2000	855	142,583	812	136,891	5.0%	4.0%	123%
2001	861	143,739	819	136,933	4.8%	4.7%	102%
2002	877	144,863	829	136,485	5.4%	5.8%	93%

Source: New Mexico Department of Labor, Bureau of Labor Statistics

State of New Mexico
Per Capita Personal Income in New Mexico and the U.S., 1993-2002

	Per Capita Income			Annual % Change	
Year	New Mexico	U.S.	NM as % of U.S.	New Mexico	U.S.
1993	16,999	21,539	79%	4.5%	2.8%
1994	17,636	22,340	79%	3.7%	3.7%
1995	18,435	23,255	79%	4.5%	4.1%
1996	18,964	24,470	78%	2.9%	4.4%
1997	19,641	25,412	77%	3.6%	4.7%
1998	20,551	26,893	76%	4.6%	5.8%
1999	20,949	27,843	75%	1.9%	3.5%
2000	21,931	29,469	74%	4.7%	5.8%
2001	23,162	30,271	77%	5.6%	2.7%
2002	23,908	30,832	75%	3.2%	1.9%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

APPENDIX D

CERTAIN INFORMATION CONCERNING THE GOVERNMENTAL UNIT WITH REPAYMENT OBLIGATIONS IN EXCESS OF 5% OF REVENUES

Generally

Albuquerque is the largest city in the State, accounting for roughly one-quarter of the State's population. Located at the center of the State in Bernalillo county at the intersection of two major interstate highways and served by both road and air, Albuquerque is the major trade, commercial and financial center of the State.

Security for Payments on NMFA Loans

Special Assessment District Loans

The City of Albuquerque has created a number of special assessment districts within the City pursuant to statutory procedures and in compliance with City policies. The districts make needed infrastructure improvements, such as street, storm drainage, sanitary sewer, water, electric line and gas line improvements, and assess the costs thereof against the property benefiting from such improvements. The assessments have a lien on each parcel of land in the district as to the respective amounts relating to such parcel, which lien has a priority on the land equal to the lien thereon for general and ad valorem taxes and superior to all other liens, claims and taxes.

Pursuant to a Tax Exempt Loan Agreement in the amount of $11,568,376 and a Taxable Loan Agreement in the amount of $788,685, both entered into on July 27, 2000 between Albuquerque and the NMFA, Albuquerque has pledged to the NMFA the money collected from its Special Assessment District No. 226 ("District 226"). District 226 provides infrastructure improvements to 29 streets, all within Albuquerque City Council District No. 1 and comprised of portions of the Knolls at Paradise Hills (located north of Congress Avenue and east of Golf Course Road).

Pursuant to a Loan Agreement in the amount of $3,867,500 entered into on December 15, 2000 between Albuquerque and the NMFA, Albuquerque has pledged to the NMFA the money collected from its Special Assessment District No. 225 ("District 225"). District 225 provides infrastructure improvements to the Paradise Heights - Unit 1 Subdivision within the northwest quadrant of the City. District 225 is bounded on the north by the Blacks Arroyo Flood Control improvements; on the east by Seven Bar Subdivision Developments; on the south by McMahon Boulevard; and on the west by vacant land west of the lots fronting Dover and Buckboard Streets.

Pursuant to a Loan Agreement in the amount of $2,605,539 entered into on October 26, 2001 between Albuquerque and the NMFA, Albuquerque has pledged to the NMFA the money collected from its Special Assessment District No. 222 ("District 222"). District 222 provides infrastructure improvements to a rapidly developing area within the southwest quadrant of the City very near the western City limits. District 222 is bounded on the north by Central Avenue and Sunset Gardens Road; on the east by 98' Street, 86", 82', and Snow Vista Boulevard; on the south by San Ygnacio and Benavides Roads; and on the west by the Snow Vista Channel.

The City and the NMFA entered into a Loan Agreement in the amount of $1,314,322 on May 24, 2002 relating to the City Special Assessment District No. 216 ("District 216"). District 216 provides infrastructure improvements to an area generally between AT&SANTA FE Railroad lines on the west, Montaño Road on the north, AMAFCA North Diversion Channel on the east and an extension of Aztec Road on the south. Approximately one third of the property is outside the Albuquerque Municipal Limits. Bernalillo County provides street and drainage improvements to areas lying within the County and outside the City limits.

In the spring of 2004, the City and the NMFA expect to enter into a Tax-Exempt Loan Agreement and a Taxable Loan Agreement relating to Special Assessment District 227 ("District 227"). District 227 provides infrastructure improvements to a rapidly developing area within the northwest quadrant of the City near the western City limits, known as the Volcano Cliffs subdivision. District 227 is comprised of portions of Volcano Cliffs Units 2, 5 and 24 (located on top of the escarpment bounded by 81st Street on the west and the National Park Service on the east).

Helicopter Loan

Pursuant to a Loan Agreement in the amount of $700,000 entered into on April 27, 2001 between Albuquerque and the NMFA, Albuquerque has pledged to the NMFA the money collected from a subordinate pledge of State-Shared Gross Receipts Tax revenues of the City for a police helicopter.

Drinking Water Loans

On May 10, 2002, the City and the NMFA entered into a $2,450,000 Drinking Water State Revolving Fund Loan Agreement and a $450,000 Public Project Revolving Fund Loan Agreement financing the construction of several chemical storage facilities at various sites as part of the City's program of converting from gas chlorination systems to onsite generation of sodium hypochlorite for water supply disinfection. The City pledged the net revenues of its water and sanitary sewer system to the repayment of these loans. Only the $450,000 PPRF Loan Agreement is part of the PPRF program.

On April 11, 2003, the City and the NMFA entered into a $3,600,000 Drinking Water State Revolving Fund Loan Agreement financing the construction of a pump station. The City pledged the net revenues of its water and sanitary sewer system to the repayment of this loan.

Stadium Loans

The City and the NMFA entered into a Taxable Surcharge Loan Agreement in the principal amount of $9,000,000 and a Taxable Stadium Lease Loan Agreement in the principal amount of $6,000,000, both to finance the renovation of the Albuquerque Sports Stadium. The Taxable Surcharge Loan Agreement is secured by the revenues to be collected from the City's Stadium Surcharge imposed pursuant to City Council Ordinance Enactment No. 60-2001, and equal to ten percent (10%) of Stadium receipts as described therein. The Taxable Stadium Lease Loan Agreement is secured by all revenues derived by the City from the Albuquerque Baseball Club, LLC pursuant to the Stadium Lease Agreement dated October 2001. Both loans are also secured by a pledge of revenues from the State of New Mexico gross receipts tax derived pursuant to Section 7-9-4 NMSA 1978, and imposed on persons engaging in business in the State.

APPENDIX E

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

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[Form of Modrall, Sperling, Roehl, Harris & Sisk, P.A. Opinion]

January 28, 2004

New Mexico Finance Authority
409 St. Michael's Drive
Santa Fe, New Mexico 87505

Bank of Albuquerque, N.A.
Trust Division
201 Third Street, Suite 1400
Albuquerque, New Mexico 87102

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds, Series 2004A

We have acted as bond counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Public Project Revolving Fund Revenue Bonds, Series 2004A in the aggregate principal amount of $43,400,000 (the "Series 2004A Bonds"). The Series 2004A Bonds are being issued for the purpose of providing funds (i) reimburse the NMFA for loans previously made to or for securities previously purchased from certain governmental units within the State of New Mexico (each a "Governmental Unit") to finance a public project for the use and benefit of the respective Governmental Unit, and (ii) to pay the costs of issuance of the Series 2004A Bonds.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the "Act"). The Series 2004A Bonds are authorized to be issued under and secured by a General Indenture of Trust and Pledge dated June 1, 1995, as heretofore amended and supplemented (the "General Indenture"), and as further amended and supplemented by a Fifty-Eighth Supplemental Indenture of Trust dated as of January 1, 2004 (the "Fifty-Eighth Supplemental Indenture", and collectively with the General Indenture, the "Indenture") between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The NMFA has previously issued other series of its Public Project Revolving Fund Revenue Bonds which are outstanding under the Indenture (the "Outstanding Parity Bonds", and sometimes together with the Series 2004A Bonds, the "Bonds"), the Series 2004A Bonds are issued and secured with a lien on the Trust Estate on a parity with the lien of the Outstanding Parity Bonds on the Trust Estate.

We have reviewed the Indenture, an opinion of the Attorney General of the State, as counsel to the NMFA, certificates of the NMFA, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceeding and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as follows:

1. The NMFA is a public body politic and corporate duly organized and validly existing under the laws of the State of New Mexico, and has lawful authority to issue the Series 2004A Bonds.

2. The Indenture has been duly executed and delivered by, and is a valid and binding obligation of, the NMFA. The Indenture creates a valid pledge of the Trust Estate pledged therefor under the Indenture, to secure the payment of the principal of and interest on Bonds subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2004A Bonds constitute special limited obligations of the NMFA, payable solely from the Trust Estate and do not constitute a debt or liability of the State of New Mexico or any Governmental Unit within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2004A Bonds and the enforceability thereof and of the Indenture maybe subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Series 2004A Bonds; and

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2004A Bonds or any other offering material relating to the Series 2004A Bonds and we express no opinion relating thereto.

Respectfully submitted,

[Form of Opinion of Ballard Spahr Andrews & Ingersoll, LLP]

January 28, 2004

New Mexico Finance Authority
409 St. Michael's Drive
Santa Fe, New Mexico 87505

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds, Series 2004A-1 and Taxable Series 2004A-2

We have acted as special tax counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Public Project Revolving Fund Revenue Bonds, Series 2004A-1 in the aggregate principal amount of $28,410,000 (the "Series 2004A-1 Bonds"), and its Public Project Revolving Fund Revenue Bonds, Series 2004A-2 in the aggregate principal amount of $14,990,000 (the "Series 2004A-2 Bonds" and collectively with the Series 2004A-1 Bonds, the "Series 2004A Bonds"). The Series 2004A Bonds are being issued for the purpose of providing funds to (i) reimburse the NMFA for loans previously made to or for securities previously purchased from certain governmental units within the State of New Mexico (each a "Governmental Unit") to finance a public project for the use and benefit of the respective Governmental Unit, and (ii) pay costs of issuance.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004A-1 Bonds. The NMFA and each Governmental Unit whose loans are being financed with proceeds of the Series 2004A-1 Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004A-1 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004A-1 Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and each such Governmental Unit with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2004A-1 Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as follows:

1. Interest on the Series 2004A-1 Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations.

2. Interest on the Series 2004A-2 Bonds is <u>not</u> excluded from gross income of the owners thereof for federal income tax purposes.

3. Under the laws of the State of New Mexico as enacted and construed on the date hereof, interest on the Series 2004A Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2004A Bonds; and

(b) although we have rendered an opinion that interest on the Series 2004A-1 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004A Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004A Bonds.

Respectfully submitted,

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

DTC will act as securities depository for the Series 2004A Bonds. The Series 2004A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Series 2004A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with or held for the account of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCQ, as well as by the New York Stock Exchange Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to DTC is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2004A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004A Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2004A Bonds, except in the event that use of the book-entry system for the Series 2004A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2004A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series 2004A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2004A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2004A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2004A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC, by Bank of Albuquerque, N.A. (the "Paying Agent" and the "Bond Registrar"). DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

So long as Cede & Co. or its registered assign is the registered owner of the Series 2004A Bonds, the NMFA and the Paying Agent will be entitled to treat Cede & Co., or its registered assign, as the absolute owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the NMFA or the Paying Agent and the NMFA and the Paying Agent will have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owners of the Series 2004A Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and neither the NMFA nor the Paying Agent has responsibility for distributing such notices to the Beneficial Owners.

The Paying Agent does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2004A Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2004A Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Series 2004A Bonds.

DTC may discontinue providing its services as securities depository with respect to the Series 2004A Bonds at any time by giving reasonable notice to the NMFA or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

APPENDIX G

SPECIMEN INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

BIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby conditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment quired to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the incipal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the oligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of e due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any vancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such nes as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment nich is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an oidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the eceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

on receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written tice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New ork, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such oligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence e assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the surer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments ing in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying gent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts d legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to y Obligation.

used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the uer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer nstitutes the underlying security for the Obligations.

ly service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service process shall be valid and binding.

is policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of Obligations.

WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of ONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

D-R-6
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$49,540,000
NEW MEXICO FINANCE AUTHORITY
PUBLIC PROJECT REVOLVING FUND
REVENUE BONDS
SERIES 2004B
($48,135,000 Series 2004B-1)
($1,405,000 Series 2004B-2 (Taxable))

SUPPLEMENT TO OFFICIAL STATEMENT DATED MAY 20, 2004

This supplement corrects erroneous CUSIP Numbers for the 2007 maturity bearing interest at 3.000% and the 2008 maturity bearing interest at 5.000% on the Maturity Schedule on the inside front cover of the Official Statement dated May 20, 2004.

$49,540,000
New Mexico Finance Authority
Public Project Revolving Fund Revenue Bonds,
Series 2004B

Maturity Schedule

$48,135,000 Series 2004B-1

Year (June 1)	Principal Amount	Interest Rate	Price	CUSIP Numbers
2005	$1,895,000	3.000%	101.333%	64711M WV5
2006	2,240,000	4.000	103.385	64711M WW3
2006	580,000	3.000	101.461	64711M XX0
2007	2,795,000	4.000	103.637	64711M WX1
2007	455,000	3.000	100.795	64711M XY8
2008	3,350,000	5.000	107.019	64711M WY9
2008	50,000	3.250	100.519	64711M XZ5
2009	2,660,000	5.000	107.127	64711M WZ6
2009	765,000	3.500	100.317	64711M YA9
2010	2,475,000	5.000	106.858	64711M XA0
2010	365,000	4.000	101.541	64711M YB7
2011	2,485,000	5.250	108.113	64711M XB8
2011	350,000	4.000	100.544	64711M YC5
2012	3,080,000	5.250	107.756	64711M XC6
2013	2,585,000	5.250	107.552	64711M XD4
2013	600,000	4.250	100.147	64711M YD3
2014	1,460,000	5.250	107.137	64711M XE2
2014	550,000	4.500	101.121	64711M YE1
2015	2,435,000*	5.250	106.057	64711M XF9
2015	25,000	4.400	99.225	64711M YF8
2016	2,760,000*	5.250	105.480	64711M XG7
2017	2,725,000*	5.250	104.908	64711M XH5
2017	135,000	4.500	98.741	64711M YG6
2018	1,865,000*	5.250	104.258	64711M XJ1
2019	1,470,000*	5.250	103.613	64711M XK8
2020	1,535,000*	5.375	104.515	64711M XL6
2021	1,610,000*	5.375	103.952	64711M XM4
2022	1,550,000*	5.500	104.689	64711M XN2
2023	1,515,000*	5.500	104.128	64711M XP7
2023	115,000	5.000	99.151	64711M YH4
2024	370,000	5.000	99.001	64711M XQ5
2025	240,000	5.000	98.214	64711M XR3
2026	245,000	5.000	97.653	64711M XS1
2027	205,000	5.125	99.132	64711M XT9
2028	215,000	5.125	98.977	64711M XU6
2029	225,000	5.125	98.818	64711M XV4

$155,000 Term Bonds due June 1, 2033, bearing interest at 5.125% – Price 98.440%
CUSIP Number 64711M XW2

*Priced to par call on June 1, 2014.

NEW ISSUE – BOOK-ENTRY ONLY

Ratings: *Moody's: Aaa*
S & P: AAA
Fitch: AAA
(See "RATINGS" herein)

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004B-1 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. Also, in the opinion of such Special Tax Counsel to the NMFA, interest on the Series 2004B-2 Bonds is not excludable from gross income for federal income tax purposes. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2004B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B Bonds. See "TAX MATTERS" herein.

$49,540,000
NEW MEXICO FINANCE AUTHORITY
Public Project Revolving Fund
Revenue Bonds
Series 2004B
($48,135,000 Series 2004B-1)
($1,405,000 Series 2004B-2 (Taxable))

Dated: Delivery Date **Due:** June 1, as shown on inside cover

The New Mexico Finance Authority's Public Project Revolving Fund Revenue Bonds, Series 2004B-1 and Series 2004B-2 (Taxable) (collectively, the "Series 2004B Bonds"), are being issued as fully-registered bonds in denominations of $5,000 or any integral multiple thereof. The Depository Trust Company will act as securities depository for all of the Series 2004B Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each series and maturity of the Series 2004B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2004B Bonds will be made in book-entry form only, and beneficial owners of the Series 2004B Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Series 2004B Bonds.

The Series 2004B Bonds will be issued under and secured by an General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously amended and supplemented, and as amended and supplemented by a Sixtieth Supplemental Indenture of Trust, dated as of June 1, 2004 (collectively, the "Indenture"), between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as Trustee (the "Trustee"). Interest on the Series 2004B Bonds is payable on June 1 and December 1 of each year, commencing on December 1, 2004, as more fully described herein. Principal of the Series 2004B Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedules set forth inside the front cover.

SEE MATURITY SCHEDULES
INSIDE FRONT COVER

The Series 2004B Bonds are subject to redemption prior to maturity as more fully described herein.

The Series 2004B Bonds are being issued by the NMFA to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities (the "2004B Governmental Units") for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004B Bonds. The principal of, premium, if any, and interest on the Series 2004B Bonds are payable solely from and secured solely by the Trust Estate, which includes the NMFA Portion of the Governmental Gross Receipts Tax, certain amounts payable pursuant to agreements between the NMFA and 2004B Governmental Units heretofore and hereafter entering into agreements with the NMFA and certain moneys in funds and accounts described herein. Parity bonds have heretofore been issued and may hereafter be issued pursuant to the Indenture with a lien on the Trust Estate on a parity with the lien of the Series 2004B Bonds.

THE SERIES 2004B BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE NMFA PAYABLE, TOGETHER WITH ADDITIONAL BONDS HERETOFORE OR HEREAFTER ISSUED, SOLELY FROM AND SECURED SOLELY BY THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. THE SERIES 2004B BONDS DO NOT CONSTITUTE OR CREATE A GENERAL OBLIGATION OR OTHER INDEBTEDNESS OF THE STATE OF NEW MEXICO, THE NMFA OR ANY GOVERNMENTAL UNIT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE NMFA HAS NO TAXING POWERS. THE PRINCIPAL OF AND INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2004B BONDS DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY ON THE PART OF THE MEMBERS, DIRECTORS AND OFFICERS OF THE NMFA. NO BREACH OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF THE NMFA WILL IMPOSE A PECUNIARY LIABILITY OR A CHARGE UPON THE GENERAL CREDIT OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE.

Payment of the principal of and interest on each series of the Series 2004B Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation concurrently with the delivery of the Series 2004B Bonds. See "BOND INSURANCE" herein.

Ambac

The NMFA has undertaken, for the benefit of owners of the Series 2004B Bonds, to provide certain annual and periodic disclosure as described herein under the caption "CONTINUING DISCLOSURE UNDERTAKING" herein.

Certain legal matters will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2004B Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, for the NMFA, by Sutin, Thayer & Browne A Professional Corporation, Disclosure Counsel to the NMFA, and by Hughes & Strumor Ltd., Co., Albuquerque, New Mexico, for the Underwriters. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2004B Bonds. It is expected that a single certificate for each maturity of each series of the Series 2004B Bonds will be delivered to DTC or its agent on or about June 9, 2004. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2004B Bonds.

Piper Jaffray & Co. **Banc Of America Securities LLC**

Dated: May 20, 2004

$49,540,000
New Mexico Finance Authority
Public Project Revolving Fund Revenue Bonds,
Series 2004B

Maturity Schedule

$48,135,000 Series 2004B-1

Year (June 1)	Principal Amount	Interest Rate	Price	CUSIP Numbers
2005	$1,895,000	3.000%	101.333%	64711M WV5
2006	2,240,000	4.000	103.385	64711M WW3
2006	580,000	3.000	101.461	64711M XX0
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2008	3,350,000	5.000	107.019	64711M XY9
2008	50,000	3.250	100.519	64711M XZ5
2009	2,660,000	5.000	107.127	64711M WZ6
2009	765,000	3.500	100.317	64711M YA9
2010	2,475,000	5.000	106.858	64711M XA0
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2011	2,485,000	5.250	108.113	64711M XB8
2011	350,000	4.000	100.544	64711M YC5
2012	3,080,000	5.250	107.756	64711M XC6
2013	2,585,000	5.250	107.552	64711M XD4
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2014	550,000	4.500	101.121	64711M YE1
2015	2,435,000*	5.250	106.057	64711M XF9
2015	25,000	4.400	99.225	64711M YF8
2016	2,760,000*	5.250	105.480	64711M XG7
2017	2,725,000*	5.250	104.908	64711M XH5
2017	135,000	4.500	98.741	64711M YG6
2018	1,865,000*	5.250	104.258	64711M XJ1
2019	1,470,000*	5.250	103.613	64711M XK8
2020	1,535,000*	5.375	104.515	64711M XL6
2021	1,610,000*	5.375	103.952	64711M XM4
2022	1,550,000*	5.500	104.689	64711M XN2
2023	1,515,000*	5.500	104.128	64711M XP7
2023	115,000	5.000	99.151	64711M YH4
2024	370,000	5.000	99.001	64711M XQ5
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2026	245,000	5.000	97.653	64711M XS1
2027	205,000	5.125	99.132	64711M XT9
2028	215,000	5.125	98.977	64711M XU6
2029	225,000	5.125	98.818	64711M XV4

$155,000 Term Bonds due June 1, 2033, bearing interest at 5.125% – Price 98.440%
CUSIP Number 64711M XW2

*Priced to par call on June 1, 2014.

$49,540,000
New Mexico Finance Authority
Public Project Revolving Fund Revenue Bonds,
Series 2004B

Maturity Schedule

$1,405,000 Series 2004B-2 (Taxable)

$385,000 Term Bonds due June 1, 2009, bearing interest at 4.570% – Price 100%
CUSIP Number 64711M VT1

$500,000 Term Bonds due June 1, 2014, bearing interest at 5.630% – Price 100%
CUSIP Number 64711M VU8

$520,000 Term Bonds due June 1, 2018, bearing interest at 6.010% – Price 100%
CUSIP Number 64711M VV6

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the Series 2004B Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information contained in this Official Statement has been obtained from the NMFA, certain Governmental Units, the Series 2004B Bond Insurer and other sources that are believed by the NMFA to be reliable. The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, any Governmental Unit, the Series 2004B Bond Insurer or others since the date hereof.

THE PRICES AT WHICH THE 2004B BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGE. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE 2004B BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2004B Bonds have not been registered under the Securities Act of 1933, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such Acts. The registration and qualification of the Series 2004B Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2004B Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the Series 2004B Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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Bank of Albuquerque, N.A.
Albuquerque, New Mexico

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OFFICIAL STATEMENT

$49,540,000
NEW MEXICO FINANCE AUTHORITY
PUBLIC PROJECT REVOLVING FUND
REVENUE BONDS
SERIES 2004B
($48,135,000 Series 2004B-1)
($1,405,000 Series 2004B-2 (Taxable))

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the offer and sale of the Public Project Revolving Fund Revenue Bonds, Series 2004B-1 (the "Series 2004B-1 Bonds") and Series 2004B-2 (Taxable) ("Series 2004B-2 Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2004B-1 Bonds and the Series 2004B-2 Bonds are collectively referred to herein as the "Series 2004B Bonds." The Series 2004B Bonds, together with additional bonds heretofore or hereafter issued on a parity therewith, are collectively referred to herein as the "Bonds." Capitalized terms used herein and not defined have the meanings specified in the General Indenture of Trust and Pledge, dated as of June 1, 1995, as heretofore supplemented and amended (the "General Indenture"), between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee (the "Trustee"), and as further supplemented and amended by the Sixtieth Supplemental Indenture of Trust, dated as of June 1, 2004 (the "Supplemental Indenture") between the NMFA and the Trustee, and are set forth under "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – CERTAIN DEFINITIONS" in Appendix B hereto. The General Indenture and the Supplemental Indenture are collectively referred to herein as the "Indenture." See "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B hereto.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2004B Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State of New Mexico (the "State") in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations. The NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor's Finance Council. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY" herein and the financial statements included as Appendix A hereto.

Purposes of the Series 2004B Bonds; The 2004B Governmental Units; Other Governmental Units

Proceeds from the sale of the Series 2004B Bonds will be used to reimburse the NMFA for loans made by the NMFA from its public project revolving fund (the "2004B Loans") to certain Governmental Units (the "2004B Governmental Units") identified under the caption "THE PLAN OF FINANCING – Governmental Units and 2004B Projects" herein. The 2004B Loans provided funds to the 2004B Governmental Units to pay for all or a portion of the costs of certain projects (the "2004B Projects"), as more fully described herein. For certain information concerning the 2004B Governmental Units and the respective 2004B Projects, see "THE PLAN OF FINANCING – Governmental Units and 2004B Projects" herein. The 2004B Governmental Units have each executed an individual loan agreement or issued securities for each project (the "2004B Loan Agreements"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS." The 2004B Loan Agreements, together with loan agreements, grant agreements and securities relating to parity bonds heretofore or hereafter issued, are referred to herein as the "Agreements." The 2004B Governmental Units together with other governmental units heretofore or hereafter entering into or issuing Agreements are herein collectively referred to as "Governmental Units."

Proceeds will also be used to provide funding for the payment of costs of issuance of the Series 2004B Bonds.

Parity Bonds

Bonds with a lien on the Trust Estate on a parity with the lien thereon of the Series 2004B Bonds have been issued previously and may be issued in the future to provide loans and grants to and to purchase securities from certain other Governmental Units. For a description of the parity bonds currently outstanding, see "SECURITY AND SOURC ES OF PAYMENT FOR THE SERIES 2004B BONDS - Outstanding Parity Bonds."

Authority for Issuance

The Series 2004B Bonds are being issued under the authority of and pursuant to the laws of the State, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.*, NMSA 1978, as amended (the "Act"), and the Indenture. For a description of the Public Project Revolving Fund Program, see "NEW MEXICO FINANCE AUTHORITY – Public Project Revolving Fund Program" herein.

Terms of the Series 2004B Bonds

Payments

The Series 2004B Bonds will be dated the Delivery Date. Interest on the Series 2004B Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2004. The Series 2004B Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity) and will bear the interest rates shown on the inside front cover hereof.

Denominations

The Series 2004B Bonds are issuable in denominations of $5,000 or integral multiples thereof.

Book-Entry System

Individual purchases will be made in book-entry form only, and purchasers of the Series 2004B Bonds will not receive physical delivery of bond certificates except as more fully described herein. Payments of principal of and interest on the Series 2004B Bonds will be made directly to The Depository Trust Company ("DTC") or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Upon receipt of such payments, DTC is to remit such payments to the DTC Participants (as hereinafter defined) for subsequent disbursement to the beneficial owners of the Series 2004B Bonds, all as more fully described in "BOOK-ENTRY ONLY SYSTEM" in Appendix F. In reading this Official Statement, it should be understood that while the Series 2004B Bonds are in book-entry only form, references in other sections of this Official Statement to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the Series 2004B Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system as described more fully herein, and (ii) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the Series 2004B Bonds

The Series 2004B Bonds are subject to redemption prior to maturity. See "THE SERIES 2004B BONDS – Redemption of the Series 2004B Bonds."

Security and Sources of Payment for the Series 2004B Bonds

Special Limited Obligations

The Series 2004B Bonds are special limited obligations of the NMFA payable solely from the Trust Estate, which includes the Revenues described below and certain funds and accounts created and maintained pursuant to the Indenture. The Series 2004B Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004B Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Special Limited Obligations."

Revenues

Revenues are defined by the General Indenture to mean: (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned on and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund). All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement; provided, however, that all earnings received on each Governmental Unit's Account will be allocated solely to the benefit of such Governmental Unit. For a description of the Agreements, the NMFA Portion of the Governmental Gross Receipts Tax and the Additional Pledged Loans, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Revenues." For a description of the funds and accounts created by the Indenture see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Flow of Funds." See also "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B.

Additional Bonds

The NMFA maintains an ongoing program to provide loans and to purchase securities from Governmental Units and expects to finance those activities with the issuance of Additional Bonds on a parity with the Series 2004B Bonds. The timing, amount and other details of such parity bonds are not known as of the date of this Official Statement.

The NMFA must meet certain requirements prior to the issuance of Additional Bonds or other obligations with a lien on the Trust Estate on a parity with the lien of the Series 2004B Bonds. For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Additional Bonds." For a discussion of the outstanding parity bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Outstanding Parity Bonds." The NMFA may not issue bonds or other indebtedness payable with a priority senior to the lien on the Trust Estate of the Series 2004B Bonds without the written consent of 100% of the owners of Outstanding Series 2004B Bonds. The NMFA has issued, and may in the future issue, indebtedness having a lien on the Trust Estate subordinate to that of the Series 2004B Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Outstanding Subordinate Debt."

Bond Insurance

Payment of scheduled principal of and interest on the Series 2004B Bonds will be insured pursuant to a financial guaranty insurance policy (the "Series 2004B Bond Insurance Policy") to be issued by Ambac Assurance Corporation (the "Series 2004B Bond Insurer") concurrently with the delivery of the Series 2004B Bonds. See "BOND INSURANCE" herein.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Bond Owners that, so long as the Series 2004B Bonds remain outstanding, the NMFA will provide certain annual financial information with respect to the NMFA and any Governmental Unit whose repayment obligations to the NMFA will represent more than five percent of the estimated annual Revenues for the first full year in which the Series 2004B Bonds are outstanding to each nationally recognized municipal securities information repository and notice of certain material events to the Municipal Securities Rulemaking Board (the "MSRB") in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in "CONTINUING DISCLOSURE UNDERTAKING" herein.

The NMFA believes that it is now and for the last five years has been in compliance with its continuing disclosure undertakings.

Tax Considerations

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004B-1 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, interest on the Series 2004B-2 Bonds is <u>not</u> excludable from gross income for federal income tax purposes.

In the opinion of such Special Tax Counsel to the NMFA, under existing laws of the State of New Mexico as currently enacted and construed, interest on the Series 2004B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B Bonds.

The form of opinion to be delivered by Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, is included in Appendix E hereto. For a discussion of such opinion and certain other tax consequences incident to the ownership of the Series 2004B Bonds, see "TAX MATTERS" herein.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2004B Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion included in Appendix E hereto and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under "TAX MATTERS" and also included in Appendix E hereto. Certain legal matters relating to the Series 2004B Bonds will be passed upon for the Underwriters by their counsel, Hughes & Strumor Ltd., Co., Albuquerque, New Mexico. Certain legal matters will be certified for the NMFA by the Office of the Attorney General for the State of New Mexico or passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Disclosure Counsel to the NMFA. See "LEGAL MATTERS" herein. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2004B Bonds. See "EXPERTS" herein.

The NMFA's financial statements for the Fiscal Year ended June 30, 2003, included in Appendix A hereto, have been audited by Neff & Ricci, LLP, certified public accountants, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS" herein.

Offering and Delivery of the Series 2004B Bonds

The Series 2004B Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate for each series and maturity of the Series 2004B Bonds will be delivered to DTC or its agent on or about June 9, 2004.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2004B Bonds.

THE SERIES 2004B BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2004B Bonds. Other information describing the Series 2004B Bonds appears elsewhere in this Official Statement. This summary and such other information should be read together and are qualified in their entirety by reference to the Indenture and the Series 2004B Bonds. For a description of certain provisions of the Indenture, see "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B. Copies of the approved forms of the Indenture are available as provided in "ADDITIONAL INFORMATION" herein.

The Series 2004B Bonds are being issued pursuant to the Act, the Indenture, and a bond authorizing resolution adopted by the NMFA on January 16, 2004, and supplemented by a sale resolution adopted on May 20, 2004. The Series 2004B Bonds are being issued to reimburse the NMFA for loans made to the 2004B Governmental Units as more particularly described herein as part of the NMFA's Public Project Revolving Fund Program. For a description of such program, see "NEW MEXICO FINANCE AUTHORITY – Public Project Revolving Fund Program" herein. See also "THE PLAN OF FINANCING – Sources and Uses of Funds."

Description of the Series 2004B Bonds

The Series 2004B Bonds will be dated as of the Delivery Date. Interest on the Series 2004B Bonds will accrue from the Delivery Date of the Series 2004B Bonds at the rates set forth on the inside front cover page of this Official Statement (calculated on the basis of the 360-day year consisting of twelve 30-day months), and is payable on June 1 and December 1 of each year, commencing December 1, 2004. The Series 2004B Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front cover (unless redeemed prior to maturity). The Series 2004B Bonds are issuable in denominations of $5,000 or integral multiples thereof (the "Authorized Denominations").

Book-Entry Only System

The Depository Trust Company will act as securities depository for all of the Series 2004B Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount and maturity of each series of the Series 2004B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2004B Bonds will be made in book-entry form only, and beneficial owners of the Series 2004B Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payment to DTC participants for subsequent disbursement to the beneficial owners of the Series 2004B Bonds. For a more complete description of the book-entry only system, see "BOOK-ENTRY ONLY SYSTEM" in Appendix F.

Redemption of the Series 2004B Bonds

Generally

The Series 2004B Bonds are subject to optional redemption, mandatory sinking fund redemption and mandatory redemption prior to maturity as set forth below.

Optional Redemption by the NMFA

The Series 2004B Bonds maturing on or after June 1, 2015 are subject to optional redemption at any time on and after June 1, 2014, in whole or in part, in such order of maturity as may be selected by the NMFA and by lot within each maturity (if in part, in integral multiples of $5,000), at the option of the NMFA, upon notice as provided in the Indenture and at the redemption price of 100% of the principal amount of the Series 2004B Bonds to be redeemed, plus accrued interest to the redemption date, but without premium.

Mandatory Sinking Fund Redemption of the Series 2004B-1 Term Bonds

The Series 2004B-1 Bonds maturing June 1, 2033 are subject to mandatory sinking fund redemption, at a price of 100% of the principal amount of such Series 2004B-1 Bonds plus accrued interest to the redemption date, on the dates and in the principal amounts, as follows:

Redemption Dates (June 1)	Principal to be Redeemed
2030	$35,000
2031	40,000
2032	40,000
2033+	40,000

+Final Maturity

If any of the Series 2004B-1 Bonds maturing on June 1, 2033 then Outstanding are optionally redeemed, an amount equal to the principal amount so redeemed will be credited toward a part or all of any one or more of any mandatory sinking fund payments for the Series 2004B-1 Bonds maturing on June 1, 2033, in such order as may be directed by the NMFA.

Mandatory Sinking Fund Redemption of the Series 2004B-2 Term Bonds

The Series 2004B-2 Bonds maturing June 1, 2009 are subject to mandatory sinking fund redemption, at a price of 100% of the principal amount of such Series 2004B-2 Bonds plus accrued interest to the redemption date, on the dates and in the principal amounts, as follows:

Redemption Dates (June 1)	Principal to be Redeemed
2005	$70,000
2006	75,000
2007	75,000
2008	80,000
2009+	85,000

+Final Maturity

The Series 2004B-2 Bonds maturing June 1, 2014 are subject to mandatory sinking fund redemption, at a price of 100% of the principal amount of such Series 2004B-2 Bonds plus accrued interest to the redemption date, on the dates and in the principal amounts, as follows:

Redemption Dates (June 1)	Principal to be Redeemed
2010	$ 90,000
2011	95,000
2012	100,000
2013	105,000
2014+	110,000

+Final Maturity

The Series 2004B-2 Bonds maturing June 1, 2018 are subject to mandatory sinking fund redemption, at a price of 100% of the principal amount of such Series 2004B-2 Bonds plus accrued interest to the redemption date, on the dates and in the principal amounts, as follows:

Redemption Dates (June 1)	Principal to be Redeemed
2015	$120,000
2016	125,000
2017	135,000
2018+	140,000

+Final Maturity

If any of the Series 2004B-2 Bonds maturing on June 1, 2018 then Outstanding are optionally redeemed, an amount equal to the principal amount so redeemed will be credited toward a part or all of any one or more of any mandatory sinking fund payments for the Series 2004B-2 Bonds maturing on June 1, 2018, in such order as may be directed by the NMFA.

Notice of Redemption

In the event any of the Series 2004B Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Registered Owners of Series 2004B Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days, but not more than 60 days, prior to the date fixed for redemption.

In addition, further notice of any redemption of Series 2004B Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Registered Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Series 2004B Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the

Series 2004B Bonds. Failure to give all or any portion of such further notice will not in any manner defeat the effectiveness of a call for redemption.

If at the time of mailing of any notice of redemption there are not on deposit with the Trustee moneys sufficient to redeem all the Series 2004B Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Registered Owners of Series 2004B Bonds or portions thereof redeemed but who failed to deliver Series 2004B Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Series 2004B Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Registered Owners will not affect the validity of the proceedings for the redemption of the Series 2004B Bonds.

Partially Redeemed Series 2004B Bonds

In case any Series 2004B Bond is redeemed in part, upon the presentation of such Series 2004B Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the NMFA, a Series 2004B Bond or Series 2004B Bonds of the same series, interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Series 2004B Bond. A portion of any Series 2004B Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or an integral multiple thereof and, in selecting portions of such Series 2004B Bonds for redemption, the Trustee will treat each such Series 2004B Bond as representing that number of Series 2004B Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Series 2004B Bonds by $5,000.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS

Special Limited Obligations

The Series 2004B Bonds are special limited obligations of the NMFA payable solely from the Revenues, proceeds of the Series 2004B Bonds (until used as provided in the Indenture) and other moneys held in certain funds and accounts held by the Trustee under the Indenture (the "Trust Estate"). The Series 2004B Bonds do not constitute nor create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004B Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Revenues

Generally

Revenues include (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund). All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Loan Agreement, provided, however, that all earnings received on the

Governmental Units' Accounts will be allocated solely to the benefit of such Governmental Unit. As discussed under "Flow of Funds" below, revenues received from a Governmental Unit by the Trustee on behalf of the NMFA pursuant to a Loan Agreement are deposited in a separate account of the Debt Service Fund established for that Governmental Unit and are periodically transferred by the Trustee to the Bond Fund and used to make debt service payments on the Bonds. All revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax and from any Additional Pledged Loans are transferred to the Trustee and deposited in the Revenue Fund. Moneys in the Revenue Fund are used each Bond Fund Year to pay debt service on the Bonds to the extent that moneys in the several accounts of the Debt Service Fund are insufficient and to pay debt service on the portions of the Bonds used to finance grants. At the end of each Bond Fund Year moneys in the Revenue Fund in excess of the requirements for such moneys under the Indenture are transferred to the NMFA and deposited in the Subordinate Lien PPRF Revenue Fund. These monies are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Revenues are deposited, see "Flow of Funds" below under this caption, and "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts" in Appendix B hereto. For a more complete description of the Subordinate Lien PPRF Revenue Fund see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Outstanding Subordinate Debt" herein.

The Agreements and the Agreement Pledged Revenues

Generally. The Agreements consist of Loan Agreements and Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of their respective projects by the NMFA. (Under the Indenture "Agreements" also includes Grant Agreements, however the Grant Agreements contain no repayment provisions.) Under each Loan Agreement or issue of Securities, the respective Governmental Unit pledges to the NMFA for payment of all amounts due under their respective Agreements (i) revenues of specific enterprise systems or revenues attributable to certain taxes (such pledged revenues, the "Agreement Pledged Revenues") and (ii) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to promptly pay principal of and interest on its loan from its Agreement Pledged Revenues and to continue such payments until its loan is paid in full.

Agreement Reserve Fund. Pursuant to the Indenture, an Agreement Reserve Fund has been created which will be held by the Trustee. Within such fund currently are accounts relating to those Governmental Units having a repayment obligation to the NMFA pursuant to a Loan Agreement or Securities for which the NMFA determined to require such accounts. Amounts in a Governmental Unit's account of the Agreement Reserve Fund will be withdrawn by the Trustee and deposited into that Governmental Unit's account of the Debt Service Fund to the extent of any shortfall in payments by such Governmental Unit under its Loan Agreement or Securities and any associated Additional Pledged Loans. **Amounts in a Governmental Unit's account of the Agreement Reserve Fund will not be used to cover shortfalls in payments of other Governmental Units and will not otherwise be available to defray deficiencies in the Bond Fund.** See "PLAN OF FINANCING – Sources and Uses of Funds" herein and "Flow of Funds" below under this caption.

Agreements with Governmental Units. Each Governmental Unit which has entered into a Loan Agreement (or has issued Securities) has pledged specific Agreement Pledged Revenues to the repayment of its Loan. Financial information and operating data for the City of Albuquerque, New Mexico, the only Governmental Unit whose Loan repayment obligation constitutes more than five percent of the estimated annual Revenues in the first full year in which the Series 2004B Bonds are Outstanding, is set forth in Appendix D. Financial information and operating data are not set forth for any other Governmental Unit.

No Obligation of Governmental Units to Cover Shortfalls. A Governmental Unit is not required to make up any Loan Payment not paid in full by another Governmental Unit or to make up any insufficiency in the NMFA Portion of the Governmental Gross Receipts Tax.

The Governmental Gross Receipts Tax

Generally. Pursuant to Section 7-1-6.38, NMSA 1978, the NMFA is allocated 75% of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. For purposes of this Official Statement, the 75% net receipts which is allocated to the NMFA is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Indenture, the NMFA Portion of the

Governmental Gross Receipts Tax will be paid when received by NMFA to the Trustee and will be accounted for and maintained by the Trustee in the Revenue Fund created under the Indenture within the Public Project Revolving Fund and are available (i) to pay debt service on the Bonds to the extent Loan Payments paid by the Governmental Units pursuant to the Agreements are not sufficient to pay debt service when due and (ii) to pay debt service on the portions of the Bonds issued to fund Grants. See "Flow of Funds" under this caption for additional information on the use of moneys in the Revenue Fund. Under the Indenture, payments attributable to Additional Pledged Loans, if any, will be paid by the NMFA to the Trustee prior to each Interest Payment Date. See "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Exhibit B for certain information concerning the Revenue Fund and allocation of amounts therein to payment of principal and interest on the Bonds.

Pursuant to Section 7-9-4.3, NMSA 1978, the governmental gross receipts tax is imposed on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State of New Mexico, except school districts and certain health care entities.

Governmental gross receipts are defined in Section 7-9-3.2, NMSA 1978, as all receipts of the State or any agency, institution, instrumentality or public subdivision thereof except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services, from: (a) the sale of tangible personal property other than water from facilities open to the general public; (b) the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public; (c) refuse collection, refuse disposal or both; (d) sewage services; and (e) the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State.

The definition of governmental gross receipts includes receipts from the sale of tangible personal property handled on consignment when sold from facilities open to the general public, but excludes cash discounts taken and allowed, governmental gross receipts tax payable on transactions reportable for the period and any type of time-price differential.

The governmental gross receipts tax was enacted into law and first imposed in 1991. It is imposed at a rate of five percent on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State, except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services. In addition, the governmental gross receipts tax is not imposed on: (i) receipts from transactions involving tangible personal property or services on which the gross receipts tax, compensating tax, motor vehicle excise tax, gasoline tax, special fuel tax, special fuel excise tax, oil and gas emergency school tax, resources tax, processors tax, service tax, or the excise tax imposed under Section 66-12-6.1, NMSA 1978, is imposed; (ii) receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision or on receipts from operation of a cable television system owned or operated by a municipality, because those receipts are subject to the regular gross receipts tax under Section 7-9-13, NMSA 1978; (iii) receipts from selling livestock and receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, unprocessed agricultural products, hides or pelts; or (iv) receipts from selling tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products, services, or activities sold at, related to or occurring at a minor league baseball stadium on which a stadium surcharge is imposed pursuant to the Minor League Baseball Stadium Funding Act.

Deductions from the governmental gross receipts tax include: (i) certain receipts from selling tangible personal property to the United States or the State or any governmental unit or subdivision, agency, department or instrumentality thereof, (ii) receipts from selling tangible personal property to an Indian tribe, nation or pueblo or any governmental subdivision, agency, department or instrumentality thereof for use on Indian reservations or pueblo grants; (iii) certain receipts from the sale of tangible personal property to a person engaged in the business of manufacturing if the sale is made to a person who delivers a non-taxable transaction certificate to the seller; (iv) receipts from transactions in interstate commerce; (v) receipts from selling tangible personal property, licenses or a service for resale if the sale is made to a person who delivers a nontaxable transaction certificate to the seller; (vi) certain receipts from selling tangible personal property to entities exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended or renumbered, if the sale is made to an organization that delivers a nontaxable transaction certificate to the seller; (vii) refunds and allowances made to buyers or amounts written off the books as an uncollectible debt by a person reporting governmental gross receipts tax on an accrual basis; (viii) certain receipts from selling prosthetic devices if the sale is made to a person who is licensed to practice medicine, osteopathic medicine, dentistry, podiatry, optometry, chiropractic or professional nursing and who delivers a nontaxable transaction certificate to the seller; and (ix) receipts from the sale of prescription drugs.

Collection and Distribution Information. Governmental agencies are treated as taxpayers under the provisions of the Tax Administration Act, Section 7-1-1 *et seq.*, NMSA 1978, and are responsible for paying the governmental gross receipts tax to the New Mexico Taxation and Revenue Department in accordance with the State's Tax Administration Act. Collections are first deposited into a tax administration suspense fund for the purpose of making disbursements for refunds, among other things. On the last day of each month, the balance in the suspense fund is identified by tax source and distributed to the appropriate municipalities or state agencies, including the NMFA. Collection of governmental gross receipts tax is administered by the New Mexico Taxation and Revenue Department. Governmental gross receipts taxes are to be paid on or before the 25th day of the month following the month in which the taxable event occurs.

Presented below is information from the New Mexico Taxation and Revenue Department concerning collections of the governmental gross receipts tax for the fiscal years 1998-1999 through 2002-2003. There can be no assurance that governmental gross receipts tax collections will continue to grow at historical rates or otherwise.

Governmental Gross Receipts Tax Collections
Fiscal Years 1998-1999 Through 2002-2003

	Fiscal Year 1998-1999	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002	Fiscal Year 2002-2003
Total Net Receipts	$16,897,029	$19,372,893	$20,994,555	$20,616,433	$22,908,393
NMFA Portion of the Governmental Gross Receipts Tax	$12,672,772(1)	$14,529,670	$15,745,916	$15,462,325(2)	$17,181,295

(1) The actual taxes collected for the NMFA by the New Mexico Taxation and Revenue Department were approximately $1.2 million higher than reported in the audited financial statements for the 1998-1999 fiscal year. The audited financial statements do not include this higher amount because this additional amount was not received by the NMFA within 60 days of its year end, and therefore not included as revenue in accordance with Generally Accepted Accounting Principles.

(2) The NMFA believes that the decrease in governmental gross receipts tax collections in fiscal year 2001-2002 is attributable to operational changes at the University of New Mexico. See footnote (1) to the following chart entitled "Top Payers of Governmental Gross Receipts Taxes — Fiscal Years 2000-2001 Through 2002-2003."

Presented below is information concerning the top eight payers of the governmental gross receipts tax for fiscal year 2000-2001 and the top nine payers for fiscal years 2001-2002 and 2002-2003. Such information is not publicly available from the State and has instead been obtained from each individual entity, and the NMFA does not guaranty the accuracy of any such information.

Top Payers of Governmental Gross Receipts Tax
Fiscal Years 2000-2001 Through 2002-2003

	Fiscal Year 2000-2001		Fiscal Year 2001-2002		Fiscal Year 2002-2003	
Entity	Amount Paid	% of Total GGRT of All Entities in NM	Amount Paid	% of Total GGRT of All Entities in NM	Amount Paid	% of Total GGRT of All Entities in NM
City of Albuquerque	$ 7,292,312	34.73%	$ 7,349,606	33.60%	$ 7,615,404	36.42%
City of Santa Fe	1,623,829	7.73	1,716,437	7.85	2,020,181	9.66
University of New Mexico	1,535,237	7.31	1,128,122*	5.16	1,055,148	5.05
City of Las Cruces	911,589	4.34	936,567	4.27	993,204	4.75
City of Farmington	662,617	3.16	691,010	3.16	742,103	3.55
City of Rio Rancho	612,096	2.92	682,333	3.12	718,317	3.44
City of Roswell	530,539	2.53	534,160	2.44	517,194	2.47
County of Los Alamos	372,289	1.77	389,243	1.78	439,554	2.10
City of Gallup	N/A	N/A	344,436	1.53	323,236	1.55
Total	$ 13,540,508	64.49%	$13,761,914	62.91%	$ 14,424,343	68.99%

* The University of New Mexico believes that a substantial portion of the decrease in governmental gross receipts tax collections in fiscal year 2001-2002 is attributable to (1) the outsourcing of vending services to a non-governmental entity which is not required to pay governmental gross receipts tax and (2) the restriction of access to its bookstore to enrolled students during certain time periods.

Sources: Listed Governmental Units.

Additional Pledged Loans

The NMFA may make loans from or purchase securities with available funds in the Public Project Revolving Fund. At its option, the NMFA may designate such loans or securities as Additional Pledged Loans (as hereinafter defined), and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds. See "Flow of Funds" below under this caption.

Flow of Funds

The Indenture creates a Revenue Fund, a Bond Fund, a Debt Service Fund with separate accounts for each Governmental Unit receiving a Loan, and an Agreement Reserve Fund with a separate account, if required, for each Governmental Unit receiving a Loan that has a reserve requirement. The repayment obligations of those Governmental Units receiving Additional Pledged Loans who have also entered into Loan Agreements with or issued Securities purchased by the NMFA, payable from the same revenue source, are on parity with amounts due with respect to such Loan Agreements or Securities.

Flow of Funds Under General Indenture

All Loan Payments and other amounts paid by Governmental Units pursuant to the Loan Agreements and Securities are to be paid directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less an administrative fee of up to 0.25% retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date, and the Trustee is directed to deposit all such payments immediately upon receipt thereof, as follows:

First: to the related Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan.

Second: to the related Account, if any, in the Agreement Reserve Fund to the extent necessary to cause the balance in said Account to equal the Agreement Reserve Requirement, if any, of such Account.

On the fifth day preceding a Loan Payment Date (or, if such fifth day is not a Business Day, on the Business Day next preceding such fifth day), if the amount on deposit in any Governmental Unit's Account of the Debt Service Fund is insufficient for payments coming due under the related Loan Agreement or Securities on the next Loan Payment Date, the Trustee is directed to transfer from the related Agreement Reserve Account, if any, to that Governmental Unit's Account of the Debt Service Fund, an amount sufficient, together with amounts in such Debt Service Account, to pay the Principal Component and the Interest Component due under such Loan Agreement or Securities on such Loan Payment Date.

On each Interest Payment Date for the Bonds, the Trustee is directed to transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay the interest on the related Bonds becoming due on such Interest Payment Date and to pay the principal of each related Bond due at maturity or by prior redemption, to the extent amounts are on deposit therein for such purpose. At least once each year, the Trustee must determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) in certain cases, to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or to credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement. In certain cases, any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the related Bonds (including the Series 2004B Bonds) will be deposited into the Revenue Fund.

The above provisions, with respect to the flow of funds, do not apply to moneys provided pursuant to the 2000A Loan Agreement. For a description of the flow of funds with respect to the 2000A Loan Agreement, see "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – Application of Loan Payments" in Appendix B.

Revenue Fund

During each Bond Fund Year, all Revenues constituting receipts from the NMFA Portion of the Governmental Gross Receipts Tax and principal and interest payments from Additional Pledged Loans are required to be paid by the NMFA to the Trustee prior to each Interest Payment Date and shall be accounted for and maintained by the Trustee in the Revenue Fund. On each Interest Payment Date, the Trustee (except as otherwise provided in a Supplemental Indenture) is directed to transfer from the Revenue Fund (including any amounts in the separate account described in the next paragraph) to the Bond Fund (i) an amount equal to the principal and interest due on such Interest Payment Date on the portion of any Bonds, the proceeds of which were used to make Grants and (ii) if the amounts on deposit in the Bond Fund are insufficient for payments coming due with respect to the Bonds on such Interest Payment Date, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal and interest due on the Bonds on such Interest Payment Date.

At the conclusion of each Bond Fund Year, the Trustee is directed to retain in the Revenue Fund, in a separate account to be created therein (to the extent of amounts remaining in the Revenue Fund), the following:

(i) an amount equal to any deficiency in any account in the Agreement Reserve Fund;

(ii) with respect to Agreements for which (A) no Agreement Reserve Account was created in the Agreement Reserve Fund and (B) a default in the payment of principal or interest under such Agreement has occurred and is continuing, an amount equal to the least of (x) 10% of the proceeds of such Agreement, (y) maximum annual debt service on such Agreement and (z) 1.25 times average annual debt service on such Agreement; and

(iii) with respect to Bonds issued to finance Grants and for which no other debt service reserve fund has been created, an amount equal to the least of (A) five percent of the proceeds of the Bonds issued to finance such Grant, (B) one-half of maximum annual debt service on the Bonds issued to finance such Grants and (C) .625 times average annual debt service on the Bonds issued to finance such Grant.

Pursuant to the Indenture, the NMFA is not required to contribute any amounts to fund the retention described in the preceding paragraph other than from amounts on deposit in the Revenue Fund at the end of each Bond Fund Year, and no default under the Indenture occurs solely by reason of any insufficiency of funds remaining in the Revenue Fund to fund such retention.

After making the foregoing deposits, at the conclusion of each Bond Fund Year, and after making the payments required by the Indenture during such Bond Fund Year, the Trustee is directed to transfer the balance on deposit in the Revenue Fund to the NMFA for deposit into the Subordinate Lien Revenue Fund. After the monies have been used for the purposes specified in the Subordinated General Indenture (hereinafter defined), the NMFA may use any remaining monies for: (i) Public Project Revolving Fund purposes; (ii) redemption of Bonds prior to maturity by depositing the same into the Bond Fund; (iii) refinancing, refunding, purchasing or advance refunding of any Bonds; or (iv) any other lawful purpose.

The balance so transferred to the Subordinate Lien Revenue Fund is no longer pledged to the payment of debt service on the Bonds.

NMFA Covenants Concerning Agreement Prepayments

Previously-issued series of Additional Bonds are subject to mandatory redemption if a Governmental Unit whose Project was financed by such series of Additional Bonds makes a Prepayment in whole or in part under its Loan Agreement. The Series 2004B Bonds are not subject to mandatory redemption under such circumstances. Instead, the Indenture requires that, for the purpose of matching, to the extent practicable, (i) the revenues received from Loan Payments received pursuant to Loans financed with proceeds of the Series 2004B Bonds with debt service payable on Series 2004B Bonds, and (ii) the overall debt service requirements on the Outstanding Bonds and the Series 2004B Bonds with revenues received from Loan Payments on all outstanding Loans, the NMFA must, within 365 days following the receipt of a Prepayment, in part or in full, of a Loan financed with proceeds of Series 2004B Bonds, take one or any combination of the actions described in the following three paragraphs.

The first option provides that the NMFA may, to the extent practicable, call for redemption prior to maturity Bonds which are subject to redemption, selecting bonds for redemption in an amount and with debt requirements that approximate the debt service requirements of the Loan for which the Prepayment was received (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied as described in this paragraph). The NMFA must provide evidence satisfactory to the Trustee and the Rating Agencies that, in taking the actions described in this paragraph, the interests of Owners of Bonds will not be adversely affected.

The second option provides that the NMFA may, to the extent practicable, originate one or more new Loans (i) in an aggregate principal amount equal to or greater than the amount of the Prepayment (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied as described in this paragraph), and (ii) with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied as described in this paragraph). The NMFA must provide evidence satisfactory to the Trustee and the Rating Agencies that, in taking the actions described in this paragraph, the interests of Owners of Bonds will not be adversely affected.

Lastly, in the event that the NMFA does not take the actions described in either of the two previous paragraphs, the NMFA must defease 2004B Bonds, in Authorized Denominations, to their first optional redemption date, in an amount approximating the amount of the Prepayment received (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied as described in this paragraph). The aggregate principal amount and maturity date of the Series 2004B Bonds to be defeased must correspond to the principal amount and due dates of the Principal Component of such Prepayment. The NMFA will recalculate the Loan Payments due under any Agreement in the case of a Prepayment in part of Loan Payments under such Loan in a manner which is consistent with the actions taken as described above.

Additional Bonds

Generally

Additional Bonds or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued or incurred, only if certain requirements have been met, including the following:

(a) NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are set forth under "Cash Flow Statement," below.

(b) All payments required by the Indenture to be made into the Bond Fund must have been made in full.

(c) The proceeds of the Additional Bonds or other indebtedness, bonds or notes must be used (i) to refund Bonds issued under the Indenture or other obligations of the NMFA (including the funding of necessary reserves and the payment of costs of issuance) or (ii) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance).

(d) No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds or other indebtedness, bonds or notes if (i) the issuance of such Additional Bonds or other indebtedness, bonds or notes otherwise complies with the requirements of the Indenture and (ii) such Event of Default will cease to continue upon the issuance of the Additional Bonds or other indebtedness, bonds or notes and the application of the proceeds thereof.

Any of the foregoing requirements may be revised or deleted with written evidence from the Rating Agency to the effect that such revision or deletion will not result in the rating on the Outstanding Bonds being lowered.

Cash Flow Statement

Pursuant to the Indenture, "Cash Flow Statement" means a certificate of the NMFA:

(a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate, the following:

(1) the amount of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(2) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(3) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding; and

(b) showing that in each such Bond Fund Year the aggregate of the amount set forth in clause (1) above divided by 1.35, plus the aggregate amount set forth in clause (2) above, exceeds 100% of the aggregate of the amounts set forth in clause (3) above. For purposes of the foregoing, the following assumptions apply:

(i) The NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12-month period during the 24 months next preceding the delivery of the Cash Flow Statement;

(ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(iii) Loans and Additional Pledged Loans will be assumed to remain in their current category designations throughout the period projected in the Cash Flow Statement.

For purposes of the Indenture and the Cash Flow Statement, "Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
Category I	100%
Category II	80%
Category III	50%
Category IV	0%

Category I Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the third highest full rating category or higher by the Rating Agency.

Category II Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

Category III Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

Category IV Loans and Additional Pledged Loans are all Non-Performing Loans and Additional Pledged Loans, Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been replenished in accordance with the related Agreement, and Loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

"Non-Performing Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a covenant default) or under which a delinquency exists in payments of principal or interest thereunder.

"Rating Agency" means Moody's Investors Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

Pursuant to the Indenture, at the time of issuance of each series of Bonds, each of the Agreements executed in connection with such issuance is required to be submitted to the Rating Agency for assignment of a designation or rating or shall be designated in Category IV by the NMFA without submission to the Rating Agency. In addition, each Additional Pledged Loan is required to be submitted to the Rating Agency for assignment of a designation or a rating or shall be designated in Category IV by NMFA without submission to the Rating Agency. At any time (including upon issuance of Additional Bonds), the category assigned to an Agreement or to Additional Pledged Loans may be revised by the Rating Agency.

Of the Agreements submitted to the Rating Agency to date, \$160.2 million have been designated Category I, \$110.3 million have been designated Category II and \$6.0 million have been designated Category III.

Governmental Gross Receipts Tax, B = Assumed Repayments of Loans and Additional Pledged Loans and C = Aggregate Annual Debt Service on all Bonds Outstanding):

$$(A \div 1.35) + B > C$$

No Senior Lien Obligation

No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Revenues for payment of the Bonds will be created or incurred without the prior written consent of the Owners of 100% of the Outstanding Bonds.

Planned Amendment of General Indenture

The NMFA has developed a proposed amended and restated General Indenture, which will, among other things, permit the NMFA to issue variable rate bonds and enter into interest rate swaps and other investment vehicles. The NMFA will need to obtain the consent of each rating agency and bond insurer that has rated or insured an outstanding Series of Bonds before the amended and restated General Indenture becomes effective, but will not need to obtain bondholder consent.

Outstanding Parity Bonds

The following table presents the series of Public Project Revolving Fund Revenue Bonds that are currently outstanding under the Indenture (the "Outstanding Parity Bonds").

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of May 1, 2004
1995	$ 41,230,000	$ 1,880,000
1996 A & B	21,125,000	2,245,000
1997	8,585,000	6,645,000
1999A	13,135,000	10,080,000
1999B	3,025,000	1,865,000
Taxable 1999C	2,265,000	1,510,000
Taxable 1999D	4,875,000	3,575,000
2000A	4,715,000	3,270,000
2000B	7,670,000	6,815,000
2000C	28,850,000	10,135,000
2002A	55,610,000	45,595,000
2003A	39,945,000	37,527,000
2003B	25,370,000	25,370,000
2004A-1	28,410,000	28,410,000
2004A-2	14,990,000	14,990,000
TOTAL	$299,800,000	$199,912,000

See "ANNUAL DEBT SERVICE REQUIREMENTS AND COVERAGE RATIOS" for Debt Service Requirements on the Outstanding Parity Bonds and aggregate payments under Agreements relating to the Bonds. See "THE PLAN OF FINANCING – Governmental Units and 2004B Projects" for a listing of the ten Governmental Units comprising the highest percentage of estimated annual revenues.

Outstanding Subordinate Debt

The NMFA has also issued its $24,900,000 Court Facilities Fee Revenue Bonds, Series 2002, $21,600,000 Court Facilities Fee Revenue Bonds, Series 2001A and $11,400,000 Taxable Court Facilities Fee Revenue Bonds, Series 2001B (collectively, the "Court Facilities Fee Revenue Bonds"), secured by (i) a portion of certain docketing fees and costs imposed and collected by certain courts in the State, certain fees and assessments collected in connection with motor vehicle and other violations, and certain parking fees, rents and other charges collected by the Bernalillo County Metropolitan Court from tenants and users of the parking facility after deduction of certain costs associated therewith which moneys are to be deposited in the Court Facilities Fund and (ii) amounts on deposit in the Subordinate Lien PPRF Revenue Fund, created pursuant to the Subordinated General Indenture of Trust and Pledge, dated as of August 1, 2001, as supplemented by a First Supplemental Indenture, dated as of August 1, 2001, and a Second Supplemental Indenture of Trust, dated as of September 1, 2002 (collectively, the "Subordinated General Indenture"), each between the NMFA and Bank of Albuquerque, N.A., as successor trustee.

The Subordinate Lien PPRF Revenues consists of those monies released to the NMFA from the Revenue Fund created pursuant to the Indenture on June 1 of each year. Pursuant to the Subordinated General Indenture, all such released moneys are to be deposited into the Subordinate Lien PPRF Revenue Fund created by the Subordinated General Indenture and are included in Subordinate Lien PPRF Revenues. Moneys in the Subordinate Lien PPRF Revenue Fund are available to pay on a parity basis debt service on Subordinate PPRF Bonds issued pursuant to the Subordinated General Indenture and on other obligations issued or incurred payable from and constituting a lien upon the Subordinate Lien PPRF Revenues (the "PPRF Secured Obligations"). The Court Facilities Fee Revenue Bonds are PPRF Secured Obligations. The NMFA may also issue additional bonds under the Subordinated General Indenture. The timing, amount and other details of any additional subordinate bonds have not been determined.

Supplemental Indentures and Amendments to Agreements; Rating Agency Discretion

Pursuant to the Indenture, the NMFA and the Trustee may, without the consent of or notice to any of the Owners of the Bonds, enter into an indenture or indentures supplemental to the Indenture in order to make certain amendments or changes to the Indenture, including any amendment with the prior written confirmation from the

Rating Agency that such amendment will not result in the rating on the Bonds, following such amendment, being lower than the rating on the Bonds immediately prior to such amendment. See APPENDIX B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – SUPPLEMENTAL INDENTURES."

In addition, the NMFA with the consent of the Trustee and the related Governmental Unit may, without the consent of any Owners of the Bonds, amend any Agreement including any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; or to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

BOND INSURANCE

The following information has been furnished by Ambac Assurance Corporation ("Ambac Assurance" or, as defined elsewhere herein, the "Series 2004B Bond Insurer") for use in this Official Statement. Such information regarding the Series 2004B Bond Insurer and the Series 2004B Bond Insurance Policy is not guaranteed as to accuracy or completeness by the NMFA or the Underwriters and is not to be construed as a representation by the NMFA or the Underwriters as to the accuracy or completeness of such information. None of the NMFA or the Underwriters have assumed responsibility to independently verify this information. No representation is made by the NMFA or the Underwriters as to the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix G for a specimen of the Series 2004B Bond Insurance Policy.

Payment Pursuant to Series 2004B Bond Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Series 2004B Bond Insurance Policy") relating to the Series 2004B Bonds effective as of the date of issuance of the Series 2004B Bonds. Under the terms of the Series 2004B Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2004B Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Series 2004B Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2004B Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Series 2004B Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2004B Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2004B Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2004B Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2004B Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2004B Bond which has become Due for Payment and which is made to an Owner by or on behalf of the NMFA has been deemed a preferential transfer and theretofore recovered from its Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Series 2004B Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Series 2004B Bond Insurance Policy. Specifically, the Series 2004B Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Series 2004B Bond Insurance Policy, payment of principal requires surrender of Series 2004B Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2004B Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Series 2004B Bond Insurance Policy. Payment of interest pursuant to the Series 2004B Bond Insurance Policy requires proof of the Owner's entitlement to interest payments and an appropriate assignment of the Owner's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the Owner of the Series 2004B Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2004B Bond and will be fully subrogated to the surrendering Owner's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $7,670,000,000 (unaudited) and statutory capital of approximately $4,683,000,000 (unaudited) as of March 31, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the obligor of such obligation.

Ambac Assurance makes no representation regarding the Series 2004B Bonds or the advisability of investing in the Series 2004B Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and

The Company's Quarterly Report on Form 10-0 for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

THE PLAN OF FINANCING

Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2004B Bonds are set forth in the following tables.

Sources and Uses of Funds

SOURCES:	
Series 2004B-1 Bonds Par Amount	$48,135,000.00
Plus: Original Issue Premium	2,373,946.65
Series 2004B-2 Bonds Par Amount	1,405,000.00
Agreement Reserve Accounts[1]	1,920,668.79
TOTAL SOURCES:	$53,834,615.44
USES:	
NMFA Reimbursement for 2004B Loans[2]	$51,164,656.11
Costs of Issuance[3]	749,290.54
Agreement Reserve Accounts[1]	1,920,668.79
TOTAL USES:	$53,834,615.44

(1) Represents the aggregate amount on deposit in Agreement Reserve Accounts related to certain 2004B Agreements.

(2) The Series 2004B Bonds proceeds will be paid to the NMFA to reimburse the Public Project Revolving Fund for advances already made by the NMFA to certain 2004B Governmental Units. Advances made to the Program Fund have been or will be used to pay all or a portion of the costs of the 2004B Projects.

(3) Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, Underwriters' discount, insurance premium and other miscellaneous costs. See "UNDERWRITING" herein.

Governmental Units and 2004B Projects

Governmental Units

The following table lists the 2004B Governmental Units that received advances from the NMFA out of the Public Project Revolving Fund for the financing of their respective 2004B Projects, which advances will be reimbursed, in whole or in part, from the proceeds of the Series 2004B Bonds.

The 2004B Governmental Units and the 2004B Projects

Governmental Unit	Project	Allocable Portion Financed With 2004B Bonds Proceeds
Artesia Public School District #16	General Obligation School Building Refunding Bonds	$ 6,595,000
Belen Consolidated School District #2	General Obligation School Building Bonds	3,800,000
Central Consolidated School District #22	General Obligation School Building Bonds	3,600,000
Chaves County	Fire Station Construction Project for East Grand Plains Volunteer Fire Department	269,708[1]
Bernalillo County Metropolitan Court	Courthouse Improvement Project	3,660,000
Village of Cuba	Equipment Acquisition	202,778[1]
Curry County	Equipment Acquisition for Broadview Volunteer Fire Department	175,000
Curry County	Equipment Acquisition for Field Volunteer Fire Department	102,000
Eddy County	Equipment Acquisition for La Huerta Volunteer Fire Department	225,000
Grant County Solid Waste Authority[2]	Solid Waste Facility (taxable)	1,680,440[1]
Guadalupe County	Equipment Acquisition for Puerta De Luna Fire Department	38,694
Hatch Municipal School District	General Obligation School Building Bonds	385,000
Hatch Valley Public School District	General Obligation School Building Bonds	370,000
Town of Lake Arthur	Equipment Acquisition Project	121,498[1]
City of Las Vegas	Municipal Recreation Center	3,067,451[1]
Town of Mesilla	Municipal Complex	739,710[1]
Village of Milan	Land/Water Rights Purchase	2,341,775[1]
Quay County Fire Department	Equipment Acquisition	61,000
Village of Ruidoso	Land Acquisition	1,295,471[1]
San Juan College	Computer Equipment	2,125,220[1]
Santa Fe Community College	Swimming Pool	2,333,294[1]
Santa Fe Community College	Computer Software	827,259[1]
Sierra County	Fire Station Construction for Arrey/Derry Volunteer Fire Department	244,227[1]
Sierra County	Fire Station Construction for Winston-Chloride Fire Department	76,840
Socorro Consolidated School District #1	General Obligation School Building Bonds	800,000
State Dept. of Cultural Affairs	Museum Project Loan	2,259,151
State Dept. of Cultural Affairs	Museum Improvement Bonds	5,710,930
State Energy, Minerals & Natural Resources Department	Park Improvement Projects	7,188,276[1]
Truth or Consequences Municipal Schools	General Obligation School Building Bonds	1,550,000
Amalia/Ventero Volunteer Fire Department	Fire Equipment Acquisition for Amalia / Ventero Volunteer Fire Department	22,733
Taos County	Infrastructure & Equipment Project	598,771[1]
Taos Municipal School District	Educational Technology Notes	2,810,000
Tucumcari Municipal School District	General Obligation School Building Bonds	1,090,000
Village of Virden	Equipment Acquisition for Virden Fire Department Equipment	50,161
TOTAL		$56,417,387

(1) Certain 2004B Agreements have Agreement Reserve Accounts funded with loan proceeds or equity contributions from the applicable 2004B Governmental Units in the aggregate amount of $1,920,668.79.

(2) Reimbursed with proceeds of the Series 2004B-2 Bonds. All other 2004B Projects are reimbursed with proceeds of the Series 2004B-1 Bonds.

Generally

The following table lists the ten Governmental Units comprising the highest percentage of estimated annual Revenues that have entered into Agreements with the NMFA for Projects that have been financed with Bonds.

Outstanding Obligations of the Ten Governmental Units Comprising the Highest Percentage of Estimated Annual 2003-2004 Revenues

Borrower	FY2004 Debt Service	% of FY2004 Revenues	Final Maturity
City of Albuquerque	$2,366,534	5.89%	2027
State Energy, Minerals and Natural Resources Department	1,992,361	4.96	2023
City of Santa Fe	1,526,687	3.80	2010
NW Solid Waste	862,487	2.15	2018
Eddy County	848,247	2.11	2007
Santa Fe County	703,299	1.75	2009
Valencia County	692,848	1.72	2010
City of Las Vegas	605,022	1.51	2015
Cibola County	572,500	1.43	2032
Roosevelt County	565,958	1.41	2020

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ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2004B Bonds for each fiscal year through their final maturity date.

Debt Service for the Series 2004B Bonds

Fiscal Year	Principal[1]	Interest[2] [3]	Annual Debt Service Requirements[3]
2005	$ 1,965,000	$ 2,373,558	$ 4,338,558
2006	2,895,000	2,367,454	5,262,454
2007	3,325,000	2,257,026	5,582,026
2008	3,480,000	2,128,149	5,608,149
2009	3,510,000	1,955,368	5,465,368
2010	2,930,000	1,791,708	4,721,708
2011	2,930,000	1,648,291	4,578,291
2012	3,180,000	1,498,480	4,678,480
2013	3,290,000	1,331,150	4,621,150
2014	2,120,000	1,164,026	3,284,026
2015	2,580,000	1,056,433	3,636,433
2016	2,885,000	920,284	3,805,284
2017	2,995,000	767,871	3,762,871
2018	2,005,000	610,620	2,615,620
2019	1,470,000	504,294	1,974,294
2020	1,535,000	427,119	1,962,119
2021	1,610,000	344,613	1,954,613
2022	1,550,000	258,075	1,808,075
2023	1,630,000	172,825	1,802,825
2024	370,000	83,750	453,750
2025	240,000	65,250	305,250
2026	245,000	53,250	298,250
2027	205,000	41,000	246,000
2028	215,000	30,494	245,494
2029	225,000	19,475	244,475
2030	35,000	7,944	42,944
2031	40,000	6,150	46,150
2032	40,000	4,100	44,100
2033	40,000	2,050	42,050
TOTAL	$49,540,000	$23,890,807	$73,430,807

(1) Payable on June 1 of each year. Includes mandatory sinking fund payments.
(2) Payable on June 1 and December 1, commencing December 1, 2004.
(3) Numbers are rounded to the nearest dollar.
Source: Western Financial Group, LLC.

The following table shows estimated available Revenues, total debt service requirements for the Series 2004B Bonds and the Outstanding Parity Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on fiscal year 2002-2003 collections of the NMFA portion of the Governmental Gross Receipts Tax and scheduled payments under the Agreements and Additional Pledged Loans, and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized.

Projected Annual Debt Service Requirements and Coverage Ratios

	Revenues			Debt Service Requirements			
Fiscal Year	Governmental Gross Receipts Tax[1]	Aggregate Pledged Borrower Payments[2][3]	Estimated Total Revenues	Total Debt Service Requirements for 2004B Bonds[4]	Total Debt Service Requirements for Outstanding Parity Bonds[5]	Total Debt Service Requirements for 2004B Bonds and Outstanding Parity Bonds	Estimated Annual Coverage Ratios[6]
2004	$17,181,295	$22,989,170	$40,170,465	-	$19,755,387	$19,755,387	2.03x
2005	17,181,295	29,163,137[3]	46,344,432	$4,338,558	21,115,478	25,454,036	1.82
2006	17,181,295	29,736,404	46,917,699	5,262,454	21,298,288	26,560,742	1.77
2007	17,181,295	29,439,545	46,620,840	5,582,026	21,059,533	26,641,559	1.75
2008	17,181,295	27,759,128	44,940,423	5,608,149	20,199,368	25,807,517	1.74
2009	17,181,295	26,874,480	44,055,775	5,465,368	19,414,325	24,879,693	1.77
2010	17,181,295	25,696,880	42,878,175	4,721,708	17,611,577	22,333,286	1.92
2011	17,181,295	26,601,225	43,782,520	4,578,291	18,756,412	23,334,704	1.88
2012	17,181,295	24,817,569	41,998,864	4,678,480	17,044,605	21,723,085	1.93
2013	17,181,295	22,155,058	39,336,353	4,621,150	14,687,714	19,308,865	2.04
2014	17,181,295	19,776,457	36,957,752	3,284,026	13,687,364	16,971,391	2.18
2015	17,181,295	20,384,505	37,565,800	3,636,433	13,869,839	17,506,273	2.15
2016	17,181,295	16,321,429	33,502,724	3,805,284	11,268,821	15,074,105	2.22
2017	17,181,295	12,377,115	29,558,410	3,762,871	7,759,324	11,522,195	2.57
2018	17,181,295	9,617,241	26,798,536	2,615,620	6,581,454	9,197,074	2.91
2019	17,181,295	7,995,981	25,177,276	1,974,294	5,789,007	7,763,300	3.24
2020	17,181,295	7,980,875	25,162,170	1,962,119	5,298,472	7,260,590	3.47
2021	17,181,295	6,212,762	23,394,057	1,954,613	4,208,282	6,162,894	3.80
2022	17,181,295	5,684,690	22,865,985	1,808,075	3,474,412	5,282,487	4.33
2023	17,181,295	5,402,556	22,583,851	1,802,825	3,419,664	5,222,489	4.32
2024	17,181,295	4,072,729	21,254,024	453,750	3,270,440	3,724,190	5.71
2025	17,181,295	2,368,837	19,550,132	305,250	2,088,210	2,393,460	8.17
2026	17,181,295	2,459,536	19,640,831	298,250	2,081,994	2,380,244	8.25
2027	17,181,295	2,138,657	19,319,952	246,000	1,748,093	1,994,093	9.69
2028	17,181,295	933,052	18,114,347	245,494	545,574	791,068	22.90
2029	17,181,295	828,819	18,010,114	244,475	551,038	795,513	22.64
2030	17,181,295	619,260	17,800,555	42,944	551,273	594,216	29.96
2031	17,181,295	620,665	17,801,960	46,150	550,463	596,613	29.84
2032	17,181,295	578,905	17,760,200	44,100	520,608	564,708	31.45
2033	17,181,295	46,384	17,227,679	42,050	-	42,050	409.70

(1) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS — Revenues — The Governmental Gross Receipts Tax." Future collections of the NMFA Portion of the Governmental Gross Receipts Tax are based on fiscal year 2002-2003 collections provided by the NMFA and are subject to change.

(2) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS — Revenues — The Agreements and the Agreement Pledged Revenues" and "— Additional Pledged Loans." Includes scheduled payments under Agreements entered into in connection with the Outstanding Parity Bonds and outstanding Additional Pledged Loans.

(3) The City of Santa Fe will prepay its Loan obligations in full on the optional redemption date in fiscal year 2005. The calculations in this column reflect that prepayment but do not reflect the prepayments of any other Loans that may occur while the Series 2004B Bonds are Outstanding.

(4) Numbers are rounded to the nearest dollar.

(5) Does not include the NMFA's Court Facilities Fee Revenue Bonds.

(6) The Estimated Annual Coverage Ratios are calculated using fiscal year 2002-2003 governmental gross receipts tax collections provided by the NMFA, assuming that no additional Parity Bonds will be issued by the NMFA, and are subject to change.

Sources: New Mexico Finance Authority and Western Financial Group LLC.

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, and governmental instrumentality of the State. It was created in 1992 pursuant to the Act for the purpose of coordinating the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is governed by a board of directors and currently employs 22 persons, including an Executive Director, who directs the business and affairs of the NMFA, subject to the policies, control and direction of the Board of Directors of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers: to sue or be sued; to adopt, subject to the review and approval of the NMFA oversight committee, such regulations as are necessary and appropriate to implement the provisions of the Act; to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the Act; to acquire, construct, hold, improve, mortgage, sell, lease, convey or dispose of real and personal property for its public purposes; to make loans and purchase securities and contract to make loans and purchase securities; to make grants from the Water and Wastewater Project Grant Fund and Water and Wastewater Planning Fund to qualified entities to finance public projects; to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance; to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA; to borrow money and to issue bonds and provide for the rights of holders of the bonds; to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts; to invest and reinvest its funds and to take and hold property as security for the investment of such funds; and to employ advisers, consultants and agents. The NMFA has no authority to impose or collect taxes of any kind.

Organization and Governance

The NMFA's Board of Directors, which is its governing body, is composed of the 12 members of the NMFA, seven of which are *ex-officio* members designated in the Act and five of which are appointed by the Governor with the advice and consent of the State senate. The seven designated members include five *ex-officio* State officials, of which four are cabinet-level secretaries (the secretary of finance and administration, the secretary of economic development, the secretary of energy, minerals and natural resources, and the secretary of environment), and one is a State agency official (the State Investment Officer), and two are the chief executives of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). One of the five members appointed by the Governor must be the chief financial officer of a State higher educational institution and the remaining four members appointed by the Governor are members of the public. Each of the appointed members of the NMFA serve staggered four-year terms, so that the term of at least one member expires on January 1 of each year. Vacancies are filled by appointment for the remainder of the unexpired term. Any member is eligible for reappointment.

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it: meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the Act and to review and approve regulations proposed for adoption; monitors and provides assistance and advice on the public project financing program of the NMFA; oversees and monitors State and local government capital planning and financing; provides advice and assistance to the NMFA and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects; undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the "Legislature"). The report and proposed legislation is required to be made available on or before December 15 each year.

The Governor's Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003, to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. Although the NMFA is a governmental instrumentality separate from the State and not legally an "executive agency," the NMFA voluntarily participates in the Governor's Finance Council in order to meet the goals of Executive Order No. 2003-017 and the goals of the NMFA.

Governing Body and Staff Members

Current members of the Board of Directors of the NMFA, and their respective occupations, are presented below:

Name	**Occupation**	**Term Expires**
Gary Bland [(1)]	State Investment Officer, State Investment Council	not applicable
John Carey [(3)]	President and CEO Association of Commerce and Industry	01/01/08
Ron Curry [(1)]	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance [(3)] (Chairman)	Owner/CEO, The Flance Company	12/31/05
William Fulginiti [(1)] (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Randy Harris [(3)]	President and CEO, Bank of Clovis	12/31/04
Rick Homans [(1)]	Secretary, Economic Development Department, State of New Mexico	not applicable
James Jimenez [(1)(2)]	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
James L. McDonough [(3)]	Vice President for Business and Finance, New Mexico State University	12/31/07
Samuel O. Montoya [(1)] (Secretary)	Executive Director, New Mexico Association of Counties	not applicable
Joanna Prukop [(1)]	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves [(3)]	President, First National Bank of New Mexico	01/01/08

(1) *Ex-officio* member.
(2) Currently acting as Interim Executive Director; Mr. Jimenez has stated his intention not to vote while in that position.
(3) Appointed by the Governor of the State.

Set out below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2004B Bonds and the administration of the NMFA's financing programs.

James Jimenez, Interim Executive Director. The NMFA's Board of Directors designated Mr. Jimenez Interim Executive Director at its April 30, 2004 meeting, following the resignation of David W. Harris to fill the position of Executive Vice President for Administration of the University of New Mexico. Mr. Jimenez has served as Secretary of the New Mexico Department of Finance and Administration (DFA) since February 2003. He began his career in government in 1986 as an economic analyst for the DFA. He served in that position until 1989 when he accepted a similar position with the Legislative Finance Committee. Mr. Jimenez returned to DFA in 1995 and served as Deputy for one year. In 1995, he became Finance Director for the City of Rio Rancho, New Mexico and was promoted to the position of City Administrator in 1999 and held that position until January 2003. Mr. Jimenez holds a bachelor of arts degree in Economics and a master of public administration degree from the University of New Mexico. In 2002, he received the distinguished alumnus award from the University of New Mexico Economics Department. He was also awarded the Ferrel Heady Prize for the outstanding professional paper upon completion of his master of public administration degree. For seven consecutive years during his tenure with the City of Rio Rancho, the City received a distinguished budget award.

Mr. Jimenez has stated his intention not to vote, as a member of the NMFA Board of Directors, on the matters that come before the Board of Directors during the time he is Interim Executive Director.

Keith H. Mellor, Chief Financial Officer. Mr. Mellor joined the NMFA in November 1995. Before coming to the NMFA, Mr. Mellor was controller for the Los Alamos Credit Union. He brings with him an extensive background in controllership, investment portfolio management, governmental auditing and accounting. His responsibilities include design, implementation, and maintenance of financial controls, reporting systems and investment strategies. Prior to serving at the Los Alamos Credit Union, Mr. Mellor was CFO/Controller for CNS, Inc., a systems engineering and integration firm. Mr. Mellor holds a B.S. in accounting from Metro State College, Denver, Colorado. He holds a Certified Public Accountant's license in the State of Colorado.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 15 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax-exempt hospital bonds. Ms. Russel earned her bachelor's degree from Marquette University, Milwaukee, Wisconsin.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

The Public Project Revolving Fund Program

The Public Project Revolving Fund Program of the NMFA is authorized by the Act and was created to fulfill the duty of the NMFA to develop and administer a program to assist qualified entities, individually or jointly, in financing all types of projects of a long-term capital nature, including but not limited to buildings and furnishings, water systems, water rights, sewerage and waste disposal systems, solid waste disposal systems, land, streets, airports, municipal utilities, parking facilities and capital equipment. To implement the Public Project Revolving Fund Program, the NMFA has been granted the following specific powers: to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA; to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (i) a loan to a qualified entity, (ii) a purchase or sale of securities individually or on a pooled basis, or (iii) the performance of its duties and execution of any of its powers under the Act; to purchase, hold or sell securities; to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities; in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and to acquire and hold title to or leasehold interest in real and personal property and to sell, convey or lease that property in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

The NMFA has issued several series of its Public Project Revolving Fund Revenue Bonds since July 1995. The proceeds of such bonds were used to make loans and grants to numerous local governmental entities of the State, as well as two departments of State government, for the construction of infrastructure projects. The NMFA issued $43,400,000 aggregate principal amount of its Public Project Revolving Fund Revenue Bonds, Series 2004A, in January 2004 for similar purposes.

Other NMFA Programs and Projects

The NMFA participates in several other programs designed to provide financing for equipment and projects to both local government entities and state agencies. These projects are funded by various sources and do not have a lien or claim of any type on the Trust Estate that secures the Series 2004B Bonds.

Workers' Compensation Administration Building Financing

In 1993 and 1994, the Legislature authorized the NMFA to sell a total of $6 million in revenue bonds for the acquisition of land and site improvement, planning, designing, constructing, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided that the first forty cents of each quarterly four dollars of Workers' Compensation assessment paid to the State would be pledged to the NMFA for payment of the revenue bonds associated with the WCA project. In July 1995, the NMFA publicly sold $2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold $4,310,000 in long-term bonds to retire the outstanding bonds and to finance construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

In 1993, the Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of $6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center.

In 2003, the Legislature authorized the NMFA to issue up to $60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA issued the first series of the bonds in an aggregate principal amount of $39,035,000 on April 1, 2004, and expects to issue two additional series, one in mid-2004 and one in 2007.

Primary Care Capital Fund

In 1994, a $5,000,000 revolving fund was created in the State treasury from which to provide loans and other financial assistance to rural primary care health clinics. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Health Department and the NMFA have negotiated a joint powers agreement whereby the Health Department will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Health Department adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded thirteen loans totaling approximately $6,650,000.

Administrative Office of the Courts Financing

The 1996 and 1999 Legislatures authorized the NMFA to issue revenue bonds in an amount not to exceed $12 million for the purpose of financing acquisition of court automation systems for the State court system and development of statewide appellate automation, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. The NMFA sold $8,500,000 in bonds in 1996 and an additional $3,500,000 in bonds in 1999. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, and a portion of certain costs and penalty assessments to be collected upon conviction of persons of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The 1996 and 1999 Bonds were defeased on June 1, 2001.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to $1,585,000,000 in bonds for the purpose of financing state transportation projects. The NMFA issued on May 20, 2004 $700,000,000 of its State Transportation Revenue Bonds (Senior Lien) Series 2004A, $237,950,000 of its State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004B and $200,000,000 of its Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C. The Series 2004A bonds financed various transportation projects of the State Department of Transportation and Series 2004B and Series 2004C bonds refunded and restructured the NMFA's outstanding Federal Highway Grant Anticipation Revenue Bonds, Series 1998A and Series 2001, and certain maturities of several issues of State Transportation Commission bonds, all of which were issued for the purposes of financing certain public lands highway projects in the State. The bonds are payable from State road fund and federal transportation revenues and not from the Revenues.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was signed into law on April 9,1997. The Drinking Water Fund Act creates, in the NMFA, the New Mexico Drinking Water State Revolving Loan Fund (DWRLF) which is administered by the NMFA. The NMFA was charged with the establishment, in cooperation with the State Environment Department, of a loan program to provide local authorities with low-cost financial assistance in the construction of drinking water facilities necessary to protect the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act (SDWA), which required the Environmental Protection Agency (EPA) to make capitalization grants to the states to further the health objectives of the SDWA. Under the re-authorization, capitalization grants will be made to the states over the next seven years.

The State has been awarded a total of $50,943,500 in capitalization grant dollars from the EPA through December 1, 2003, and has provided a total state match of $10,188,700.

The NMFA can utilize funds in the DWRLF to make loans to localities for drinking water facility construction, renovation or expansion. For projects with proper legislative approval, these loans can be combined with loans from the Public Project Revolving Fund to leverage the funds in the DWRLF to create a greater dollar volume of loans. To date the NMFA has funded 17 loans totaling approximately $21,162,361.

Bernalillo Metropolitan Court

During the 1998 special legislative session and the 2000 legislative session, the Legislature authorized the NMFA to issue up to $57,900,000 in revenue bonds for the purpose of financing the acquisition of real property and the design, construction and equipping of a new court building and an adjacent parking facility for the Bernalillo Metropolitan Court in Albuquerque, New Mexico. The first series of bonds for the Metropolitan Court Project, the Court Facilities Fee Revenue Bonds, were issued on August 16, 2001 in the amount of $33,000,000. On September 5, 2002, the next series of bonds was issued in the amount of $24,900,000. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle and certain other amounts on deposit in the Subordinate Lien PPRF Revenue Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS - Outstanding Subordinate Debt" herein.

During the 2003 legislative session, the Legislature authorized the NMFA to issue an additional $3,900,000 in revenue bonds for the purpose of funding additional improvements to the Bernalillo Metropolitan Court. These bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Water and Wastewater Grant Fund Program

In 2000, the Legislature authorized the NMFA to issue up to $5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated approximately $41,000,000 to the Water and Wastewater Grant Fund Program to fund 72 public water and wastewater systems. In 2002, the Legislature appropriated $15,000,000 to the Water and Wastewater Grant Fund, but did not identify specific projects to receive the benefit of these funds. For this reason, the NMFA has used the 2002 legislative appropriation only for certified emergency projects. In 2003, the Legislature granted a temporary increase in the total amount of emergency grants the NMFA can make in any fiscal year. As a result, through fiscal year 2006, the NMFA may make up to $6,000,000 in emergency grants per fiscal year. As of December 31, 2003, the NMFA Board of Directors has approved 139 grants, totaling approximately $51,000,000.

Water and Wastewater Planning Fund Program

The Water and Wastewater Planning Fund was created by the Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued $1,000,000 in bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional $1,000,000 to this fund.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue bonds in the amount of $75,000,000 to finance four separate projects: (i) purchase, renovate, equip and furnish the National Education Association Building on South Capitol Street in Santa Fe, (ii) plan, design, construct, equip and furnish a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, (iii) purchase, renovate, equip and furnish the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, and (iv) purchase land adjacent to the District 5 Office of the State Highway and Transportation Department on Cerrillos Road in Santa Fe. The bonds are payable from a pledge of a portion of the State's gross receipts tax. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of $34,695,000 to finance a portion of the authorized projects.

The Legislature in 2003 authorized the NMFA to issue bonds in the amount of $5,760,000 for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The bonds are payable from a pledge of a portion of the State's gross receipts tax. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Interim Loan Programs

The NMFA is authorized to use money on deposit in the public project revolving fund to make loans to qualified entities for the financing of (1) equipment for fire protection, law enforcement and protection, computer and data processing, street and road construction and maintenance, emergency medical services, solid waste collection, transfer and disposal, radio and telecommunications, and utility system purposes, and (2) the acquisition, construction and improvement of fire stations. Interim loans may be made for those purposes in amounts not exceeding five hundred thousand dollars, and will, within two years after loans are made, be specifically authorized by law at a legislative session or, within that two year period, bonds will be issued by the NMFA, the proceeds of which will be used to reimburse the public project revolving fund for the amounts used to make interim loans. Projects funded with the proceeds of interim loans under the equipment program are not required to obtain specific authorization by law, as required of projects funded directly from the public project revolving fund.

The Subordinate Lien Program

The NMFA is authorized to issue bonds pursuant to the Subordinated General Indenture of Trust and Pledge, dated as of June 1, 2002, and supplements thereto (collectively, the "Subordinated General Indenture") to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. In connection with the issuance of bonds issued pursuant to the Subordinated General Indenture (the "Subordinate PPRF Bonds"), the NMFA may enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate PPRF Bonds for projects. Such loan agreements and securities are referred to herein as "Subordinate PPRF Agreements." The Subordinate PPRF Bonds are secured by (i) all revenues received or earned by the NMFA from or attributable to the Subordinate PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program); (ii) public project revolving fund revenues released from the Indenture; (iii) all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Subordinated General Indenture; and (iv) all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Subordinated General Indenture.

LITIGATION

To the knowledge of the NMFA, there is no controversy or litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2004B Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Revenues for the payment of the debt service on the Series 2004B Bonds or in any way contesting or affecting the validity or enforceability of the Series 2004B Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA and the office of the New Mexico Attorney General will deliver no-litigation certificates as to the foregoing prior to the issuance of the Series 2004B Bonds.

UNDERWRITING

Piper Jaffray & Co. and Banc of America Securities LLC (collectively, the "Underwriters") have agreed to purchase the Series 2004B Bonds from the NMFA pursuant to a Bond Purchase Agreement dated May 20, 2004 (the "Bond Purchase Agreement"), at an aggregate price of $51,627,605.45 (being the aggregate principal amount plus an original issue premium of $2,373,946.65 and less Underwriters' discount of $286,341.20). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2004B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the Series 2004B Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

TAX MATTERS

Federal Income Tax

Series 2004B-1 Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004B-1 Bonds. The NMFA and the Governmental Units whose loans are being financed by the issuance of the Series 2004B-1 Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004B-1 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004B-1 Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and such 2004B-1 Governmental Units with such requirements and restrictions in rendering its opinion regarding the tax exempt status of interest on the Series 2004B-1 Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004B-1 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the Series 2004B-1 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B-1 Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. Said Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B-1 Bonds.

Original Issue Premium. Certain of the Series 2004B-1 Bonds are offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2004B-1 Bond through reductions in the holder's tax basis for the Series 2004B-1 Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Series 2004B-1 Bond rather than creating a deductible expense or loss. Series 2004B-1 Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the Series 2004B-1 Bonds are offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. Original issue discount on a Series 2004B-1 Bond accrues as tax-exempt interest periodically over the term of the Series 2004B-1 Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2004B-1 Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2004B-1 Bondholders should consult their tax advisors for an explanation of the accrual rules.

Series 2004B-2 Bonds

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, interest on the Series 2004B-2 Bonds is not excludable from gross income for federal income tax purposes.

State of New Mexico Income Tax

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, under laws of the State of New Mexico as currently enacted and construed, interest on the Series 2004B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2004B Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions included in Appendix E hereto. Certain legal matters will be certified for the NMFA by the Office of the Attorney General for the State of New Mexico or passed on for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Sutin, Thayer & Browne A Professional

Corporation, Disclosure Counsel to the NMFA, and for the Underwriters by Hughes & Strumor Ltd., Co., Albuquerque, New Mexico. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA contained in this Official Statement.

EXPERTS

Western Financial Group, LLC, is employed as Financial Advisor to the NMFA in connection with the preparation of this Official Statement and the issuance of the Series 2004B Bonds. Western Financial Group, LLC, in its capacity as Financial Advisor, has not verified and does not assume responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2004B Bonds, or the possible impact of any present, pending or future actions taken by an legislative or judicial bodies.

FINANCIAL STATEMENTS

The combined financial statements of the NMFA for the year ended June 30, 2003, included as Appendix A of this Official Statement have been audited by Neff & Ricci, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated October 10, 2003. Such financial statements represent the most current audited financial information available for the NMFA. Neff & Ricci, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement.

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the NMFA's and certain Governmental Units' future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission in connection with the issuance of the Series 2004B Bonds, the NMFA will execute and deliver a Continuing Disclosure Undertaking pursuant to which it will agree to provide the following information:

(i) to each nationally recognized municipal securities information repository ("NRMSIR"):

(1) annual financial information and operating data as follows:

(a) with respect to the NMFA, information concerning the NMFA Portion of the Governmental Gross Receipts Tax Revenues, such information to be of the type set forth under the table captioned "Governmental Gross Receipts Taxes Collections – Fiscal Years 1998-1999 Through 2002-2003" under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – Revenues – The Governmental Gross Receipts Tax" in the Official Statement; and

(b) with respect to any Governmental Unit whose Loan repayment obligations constitute more than five percent of the estimated annual Revenues for the first full year in which the Series 2004B Bonds are outstanding (the "5% test") information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement Pledged Revenues, or such shorter period for which such information is available; and

(2) audited financial statements for the NMFA and any Governmental Unit meeting the 5% test.

Such information will be provided within 270 days of the end of each fiscal year and will be made available, in addition to each NRMSIR, to the Trustee and to each holder of the Series 2004B Bonds who requests such information. In the event that audited financial statements are not available within such time period, unaudited financial statements will be provided;

(ii) in a timely manner to the Municipal Securities Rulemaking Board ("MSRB") and to a State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Series 2004B Bonds or the Agreements, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the Series 2004B Bonds;

(7) modification of rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Series 2004B Bonds; and

(11) rating changes.

The NMFA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA, such other event is material with respect to the Series 2004B Bonds or the Agreements. However, the NMFA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above; and

(iii) in a timely manner to the MSRB notice of a failure to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The NMFA reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA; provided that, the NMFA has agreed that any such modification will be done in a manner consistent with the Rule. The NMFA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the Series 2004B Bonds and shall be enforceable by the Owners; provided that, the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA's obligations, and any failure by the NMFA to comply with the provisions of the undertaking shall not be an event of default with respect to the Series 2004B Bonds.

Financial information and operating data for the City of Albuquerque, New Mexico, the only Governmental Unit which is expected to provide more than five percent of estimated annual Revenues in the first full year in which the 2004B Bonds will be Outstanding, is set forth in Appendix E.

The NMFA believes that it is now and for the last five years has been in compliance with its continuing disclosure undertakings.

RATINGS

Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa," "AAA" and "AAA," respectively, to the Series 2004B Bonds, based on the understanding that upon the delivery of the Series 2004B Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2004B Bonds will be issued by a municipal bond insurer. In addition, Moody's, S&P and Fitch have assigned underlying (*i.e.*, without regard to a municipal bond insurance policy) long-term ratings of "A1," "A-" and "AA," respectively, to the Series 2004B Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, S&P at 55 Water Street, New York, New York 10041, and Fitch at One State Street Plaza, New York, New York 10004.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2004B Bonds and there is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings given to the Series 2004B Bonds may have an adverse effect on the market price of the Series 2004B Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2004B Bonds any proposed revision or withdrawal of the ratings on the Series 2004B Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2004B Bonds.

APPROVAL BY THE NMFA

This Official Statement has been deemed "final" as of its date under the meaning of the Rule. Its distribution and use by the Underwriters have been duly authorized and approved by the NMFA, and this Official Statement will be executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Interim Executive Director.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance,
Chairman of the Board of Directors

By /s/ James Jimenez
James Jimenez,
Interim Executive Director

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2003

NEW MEXICO FINANCE AUTHORITY

INTRODUCTORY SECTION

FINANCIAL SECTION

NEW MEXICO FINANCE AUTHORITY

SUPPLEMENTAL INFORMATION

SINGLE AUDIT INFORMATION

NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2003

Official Roster

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Samuel O. Montoya, Secretary
Ron Curry
James Jimenez
Rick Homans
Joanna Prukop
Gary Bland
James L. McDonough
Craig Reeves
Randy Harris
David Stone

Executive Director

David W. Harris

Chief Financial Officer

Keith H. Mellor

Controller

Joe Gosline

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Independent Auditors' Report

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Authority, as of June 30, 2003, and the respective changes in the financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4-14 is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of pledged collateral is presented for purposes of additional analysis and are not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to each of the respective individual funds taken as a whole.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The New Mexico Finance Authority (the Authority) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (ability to address future year challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

HIGHLIGHTS

Financial Highlights

Statement of Net Assets (see table 1)
The Authority's total net assets at FY 2003 year end were $149,344,036 compared to $152,594,772 in FY 02 a net decrease of $3,250,736 due to the following factors: The governmental net assets for FY 2003 were $29,053,630 compared to $42,605,478 in FY 2002 a decrease of $13,551,848. This was due to three State financing projects paying off and the subsequent liquidation of the funds. Business-type FY 2003 net assets were $120,290,406 compared to $109,989,294 in FY 2002 an increase of $10,301,112. This was due primarily to increases in PPRF loan production; also the other Business-type funds experienced growth across the board.

Statement of Activities (see table 2)
The Governmental and Business-type activities FY 2003 Program revenue was $27,195,280 down from $59,238,182 in FY 2002, a decrease of $32,042,902. This was due entirely to the receipt of two non recurring appropriations totaling $32 million in FY 2002. The Governmental and Business-type activities FY 2003 General Revenue and Transfers were $49,325,234 down from $49,663,239 in FY 2002, a decrease of $338,005

The change in net assets was a decrease of $3,250,737 in fiscal year 2003, due to the reasons explained above. The total FY 2003 cost of all NMFA programs was $79,771,251 compared to $62,015,678, an increase of $17,755,573. The $7,631,463 increase of Governmental Type expenses was due entirely to debt service expenditures related to the accelerated pay off of the variable rate TRIMS project. The $10,124,110 increase of Business-type expenses was due to a number of factors, namely, increases in interest debt service related expenses ($2,000,000), grant expenses ($1,200,000),transfers to other agencies ($6,000,000) and overall growth of NMFA programs as evidenced by the increase of gross assets below.

The Authority's gross assets increased from $558,666,492 in FY 2002 to $622,798,012 in FY 2003 an increase of $64,131,520.

NMFA Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the NMFA and the NMFA provides staff support to the Water Trust Board.

Authority's core program, the PPRF loan program has provided financing for a variety of infrastructure and equipment projects. In FY 2003, the PPRF program made approximately seventy loans totaling approximately $70.7 million compared to forty loans totaling $31 million in FY 2002.

In cooperation with the New Mexico Environment Department (NMED), the NMFA administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY 2003, the DWRLF made three loans totaling $5.9 compared to seven loans totaling $6.9 million in FY 2002. The FY 2003 binding commitments numbered four, approximating $16.5 million compared to three totaling approximately $2.9 million in FY 2002.

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2003, the NMFA Board has approved thirteen loans totaling $6.65 million.

Through June 2003, the NMFA has issued $290 million in bonds to provide all or part of the financing for several state projects, including a Worker's Compensation Administration Building, UNM Cancer Research Center, Administrative Office of the Courts automation project, an Insurance Department automation project, an information system upgrade for the Taxation and Revenue Department, the State Highway and Transportation's Corridor 44 and Highway 70 projects, the State Library Renovation project, and the Bernalillo Metropolitan Courthouse project.

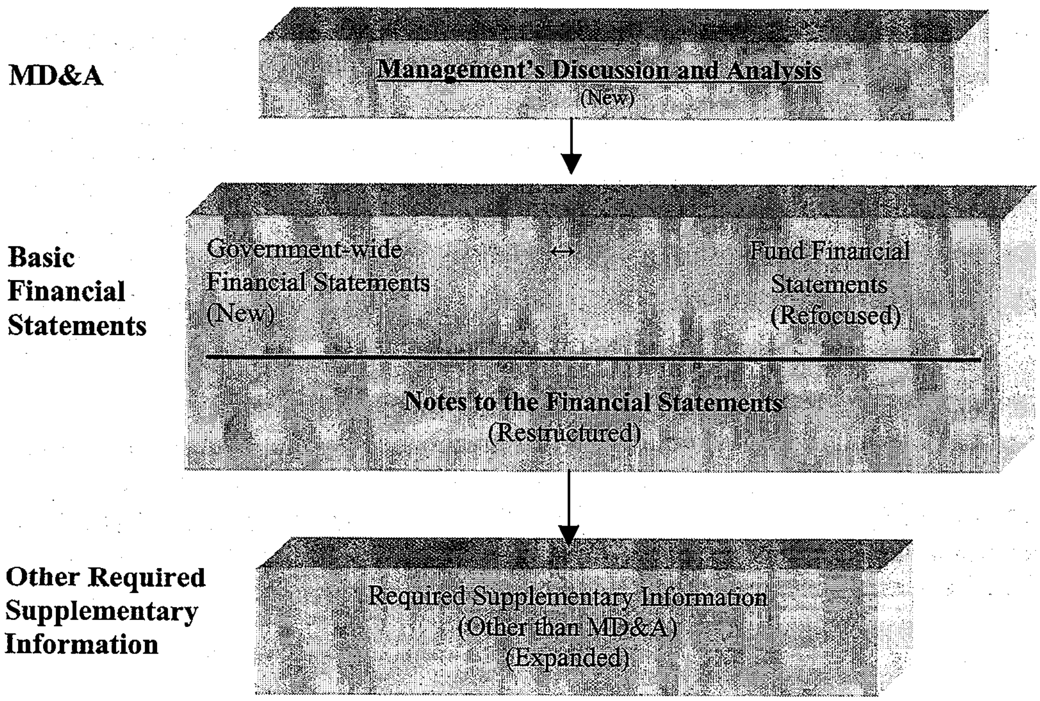
The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY 2003, 40 grants closed for a total of $20,452,613 compared to 25 grants totaling $3,702,584 in FY 2002.

The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework and created a fifteen-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the NMFA, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The NMFA is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2002, House Bill 88, as amended, appropriated $22.5 million for identified regional projects as well as an appropriation for future use to the Water Project Fund in FY 2003. In FY 2003, the Water Trust Board reviewed 65 applications for funding from the $10 million appropriation for General Water Project Finance Act Provisions.

USING THIS ANNUAL REPORT

With the implementation of GASB #34 last year, the presentation of the financial statements is significantly different from the previous general-purpose financial statements. The primary focus in State government's financial statements for the last 20 years (summarized fund type information) has been discarded with implementation of GASB #34. The new focus is on both the NMFA (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the NMFA is an instrumentality of the State of New Mexico Government, the primary government focus in this financial report is the NMFA and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions, or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the NMFA. Both statements distinguish between the governmental and business-type activities of the NMFA. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The government-wide financials statements of the NMFA are divided into two categories:

- Governmental Activities – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the NMFA are the, TRIMS Automation Project, Metro Court Financing, Highway 44 Financing, Federal Highway Forest Road Financing, UNM Cancer Center Financing, Water/Wastewater Grant Fund, Water Trust Board, Water Planning Fund, Workers Compensation Building Financing, State Capitol Improvement Financing, Equipment COP Financings, and the Insurance Department Financings.

- Business-type Activities – The Authority's revolving fund programs and operating fund are included in the Business-type activities. The funds included in the Business-type activities for the NMFA are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the State Building Purchase Fund, and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Governmental Fund Types:

- Special Revenue funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authorities funds classified as Special Revenue Funds are the UNM Cancer Center Bond Fund, the Water Waste/water Grant Fund, the Water Planning Fund, and the Water Projects Fund (accounted for within the Water Trust Fund).

- Debt Service funds – The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs. The funds classified as debt service funds are the TRIMS Project, the Metro Court Financing Fund, the Highway 44 Financing Fund, the Forest Highway Forest Road Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund, The Equipment Certificate of Participation (COP) Funds, and the Insurance Department Financing Fund.

Proprietary Fund Types:

- Enterprise funds – Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the costs of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The funds classified as proprietary funds are, the General Operating fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund, and the State Office Building Financing Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Infrastructure Assets

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The NMFA does not own a material interest in any infrastructure assets and therefore is not required to implement this portion of GASB #34.

Budgetary Comparisons

In addition to MD&A, GASB #34 requires budgetary comparison schedules for the general fund and for each major special revenue fund and enterprise fund that has an adopted annual budget. The Authority does not have any legally adopted budgets and therefore does not present any budgetary statements.

FINANCIAL ANALYSIS OF THE NMFA AS A WHOLE

Net Assets: Table 1 summarizes the Authority's net assets for the fiscal years ending June 30, 2003 and 2002 on a comparative basis. FY 2003 net assets for Governmental Activities and Business-type Activities were $29,053,630 and $120,290,406 respectively. Total NMFA net assets for fiscal year 2003 are $149,344,036. However, most of those net assets are restricted as to the purposes they can be used for. The restricted net assets of Governmental Activities are $29,053,630 at the end of the fiscal year. This amount consists of amounts necessary for debt service on outstanding bond issues. In the Business-type activities, the unrestricted amount of $17,706 is the unrestricted balance of the PPRF Fund and can be used only for the stated purposes of that fund.

Table 1
The NMFA Statement of Net Assets

	Governmental Activities FY 2002	Governmental Activities FY 2003	Business-type Activities FY 2002	Business-type Activities FY 2003	**Total FY 2002**	**Total FY 2003**
ASSETS AND OTHER DEBITS						
Current and Other Assets	$ 139,790,966	122,223,030	123,388,015	172,454,211	**263,178,981**	**294,677,241**
Capital and Non-Current Assets	117,498,390	111,867,524	177,989,121	216,253,247	**295,487,511**	**328,120,771**
Total Assets	**$257,289,356**	**$234,090,554**	**$301,377,136**	**$388,707,458**	**$558,666,492**	**$622,798,012**
LIABILITIES						
Current Liabilities	$ 29,010,052	31,094,603	54,520,358	68,511,006	**83,530,410**	**99,605,609**
Long-Term Liabilities	185,673,826	173,942,321	136,867,484	199,906,046	**322,541,310**	**373,848,367**
Total Liabilities	**214,683,878**	**205,036,924**	**191,387,842**	**268,417,052**	**406,071,720**	**473,453,976**
NET ASSETS						
Invested in capital assets	-	-	31,684	30,056	**31,684**	**30,056**
Restricted	27,528,104	29,053,630	109,717,358	120,242,644	**137,245,462**	**149,296,274**
Unrestricted	15,077,374	-	240,252	17,706	**15,317,626**	**17,706**
Total net assets	**42,605,478**	**29,053,630**	**109,989,294**	**120,290,406**	**152,594,772**	**149,344,036**
Total liabilities and net assets	**$ 257,289,356**	**$234,090,554**	**$301,377,136**	**$388,707,458**	**$558,666,492**	**$622,798,012**

Statement of Activities: (Table 2).

Revenue

Total revenue for The NMFA as a whole in FY 2003 was $76,520,514. The Authority's revenue was generated from a number of sources.

For governmental-type activities total revenue was $39,656,690 of which tax revenues comprised 53%, operating grants and contributions comprised 5%, interest and investment income comprised 7% and charges for services and transfers 35%.

For business-type activities total revenue was $36,863,824 of which tax revenues comprised 62%, operating grants and contributions 22%, interest and investment income 7%, and charges for services and transfers 9%.

Table 2
NMFA Statement of Activities

	Governmental - type Activities (Infrastructure financing) FY 2002	Governmental - type Activities (Infrastructure financing) FY 2003	Business-type Activities (Infrastructure financing) FY 2002	Business-type Activities (Infrastructure financing) FY 2003	Total FY 2002	Total FY 2003
Expenses	$45,577,075	$53,208,538	$16,438,603	$26,562,713	**$62,015,678**	**$79,771,251**
Total program revenues	38,145,176	7,330,051	21,093,006	19,865,229	**59,238,182**	**27,195,280**
Changes in net assets:						
Net (expense) revenue	(7,431,899)	(45,878,487)	4,654,403	(6,697,484)	**(2,777,496)**	**(52,575,971)**
Total general revenues and transfers	26,498,945	32,326,639	23,164,294	16,998,595	**49,663,239**	**49,325,234**
Change in net assets	19,067,046	(13,551,848)	27,818,697	10,301,111	**46,885,743**	**(3,250,737)**
Net assets - beginning,	23,538,432	42,605,478	82,170,597	109,989,294	**105,709,029**	**152,594,772**
Net assets – ending	**$42,605,478**	**$29,053,630**	**$109,989,294**	**$120,290,405**	**$152,594,772**	**$149,344,035**

Expenditures

Total expenditures for The NMFA as a whole in FY 2003 were $79,771,251.

The Authority's total expenditures for government-type activities during the fiscal year were $53,208,538. Approximately 1% of the expenditures are in the area of operating costs which include salaries and benefits, professional services, travel, etc. Grant expenses comprise 18% of the total, debt service expenditures 71%, and transfers to other state agencies 10%.

Expenditures for business-type activities totaled $26,562,713. The majority of expenditures for business-type activities were for debt service at 40%, and transfers to other agencies amounted to 42%. Grant expenses amounted to 8%. With in the operating cost category salaries and benefits comprised 4%, all other operating costs such as repairs and maintenance, travel, supplies etc. comprised 6% of total expenditures.

Budgetary Highlights

For FY 2003 the NMFA completed the year with a favorable variance of $329,794 for its combined total of all budgeted funds (please see Table 3).

Table 3

Total of all Budgeted Program Funds

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Revenues:			
Administrative Fees	$ 757,874	$ 730,592	$ (27,282)
Setaside Revenue	229,734	42,713	(187,021)
Reimbursement Revenue	1,255,286	1,122,114	(133,172)
Interest Income	-	4,133	4,133
Grant Revenue	-	-	-
Total Revenue	2,242,894	1,899,552	(343,342)
Operating Transfers in	173,748	187,296	13,548
Reimbursement Transfers in	-	-	-
Total Revenue and transfers in	$ 2,416,642	$ 2,086,848	$ (329,794)

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Expenditures:			
Current:			
Personnel Services	$ 947,581	$ 907,513	$ 40,068
Employee Benefits	405,105	311,868	93,237
In-State Travel	60,739	37,175	23,564
Office Supplies	32,599	32,418	181
Contractual Services	636,748	486,916	149,832
Operating Costs	271,594	241,413	30,181
Administrative Fees	-	31,190	(31,190)
Out-of-State Travel	27,125	12,784	14,341
Total Current Expenditures	2,381,491	2,061,277	320,214
Capital Outlay	35,152	25,571	9,581
Total Expenditures	$ 2,416,643	$ 2,086,848	$ 329,794

Capital Assets and Debt Administration

At the end of fiscal year 2003, the NMFA has invested a total of $30,056 net of depreciation in business-type activities; there has been no investment in fixed assets for government-type activities. During FY 2003 capital outlay expenditures totaled $25,571. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 8 to the financial statements.

GASB Statement #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The NMFA does not own any infrastructure assets.

Long-Term Debt

The Authority's long term debt is all outstanding bond issues related to the various programs administered by the NMFA. At the end of fiscal year 2003, the total amount outstanding was $385.6 million. More detailed information about the Authority's long-term debt is presented in Note 9 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year's ended June 30, 2003 and 2002.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2004 budget accommodates the Authority's administration of seven programs paid from different sources of revenue:

- General operations of the NMFA, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board funded from the Water Project Fund;
- Water and Wastewater Grant Fund (W/WWGF)program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) Program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF.
- The Economic Development Fund, funded from administration fees and cigarette tax revenue (new).

The Authority's primary operating budget for FY 2004 is $2,749,443, compared to the FY 2003 budget of $2,376,425, a 16% increase.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

New Mexico Finance NMFA
409 St. Michael's Drive
Santa Fe, New Mexico 87505

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 94,360,012	96,526,082	190,886,094
Receivables			
Taxes	2,853,652	2,023,830	4,877,482
Interest	50,306	1,574,005	1,624,311
Grant and other	8,626	2,409,654	2,418,280
Loans, net of allowance	108,401,445	213,772,550	322,173,995
Securities	-	14,609,637	14,609,637
Due from other funds	16,004	121,229	137,233
Due from other state agencies	2,164,542	-	2,164,542
Cash and cash equivalents - restricted	22,769,888	55,189,774	77,959,662
Capital assets			
Depreciable property and equipment, net	-	30,056	30,056
Deferred issuance costs	3,466,079	2,445,331	5,911,410
Other assets	-	5,310	5,310
Total assets	$ 234,090,554	388,707,458	622,798,012
LIABILITIES			
Accounts payable and accrued liabilities	2,345,148	813,675	3,158,823
Accrued payroll, fringe benefits and compensated absences	10,348	92,020	102,368
Accrued interest payable	2,210,648	877,332	3,087,980
Debt service payable	141,626	16,245,229	16,386,855
Long-term notes payable	2,000,000	-	2,000,000
Funds held for others	16,013,648	32,624,783	48,638,431
Due to other state agencies	35,525	2,538,394	2,573,919
Due to other funds	135,660	1,573	137,233
Bonds payable, current	10,202,000	16,353,305	26,555,305
Bonds payable, long term	171,942,321	198,870,741	370,813,062
Total liabilities	205,036,924	268,417,052	473,453,976
NET ASSETS			
Invested in capital assets	-	30,056	30,056
Restricted for			
Debt service	11,670,331	95,128,155	106,798,486
Program funds	17,383,299	25,114,489	42,497,788
Unrestricted	-	17,706	17,706
Total net assets	29,053,630	120,290,406	149,344,036
Total liabilities and net assets	$ 234,090,554	388,707,458	622,798,012

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

	Governmental - Activities	Business-type Activities	Total
Expenses - Capital Financing	$ 53,208,538	26,562,713	79,771,251
Program revenues			
Charges for services	5,260,078	11,111,914	16,371,992
Operating grants and contributions	2,069,973	8,753,315	10,823,288
Total program revenues	7,330,051	19,865,229	27,195,280
Net (expense) revenue	(45,878,487)	(6,697,484)	(52,575,971)
General revenues			
Taxes			
Governmental gross receipts and gross receipts taxes	21,202,222	23,181,295	44,383,517
Investment earnings	2,462,941	2,478,776	4,941,717
Total general revenues	23,665,163	25,660,071	49,325,234
Transfers	8,661,476	(8,661,476)	-
Change in net assets	(13,551,848)	10,301,111	(3,250,737)
Net assets - beginning	42,605,478	109,989,295	152,594,773
Net assets - ending	$ 29,053,630	120,290,406	149,344,036

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	Administration Fee Revenue Program (TRIMS Project)	Metro Court Financing Fund	Highway 44 Financing Fund
ASSETS			
Cash and cash equivalents	$ 19,794	20,192,333	-
Tax revenue receivable	-	460,985	-
Other assets	-	-	-
Due from other funds	-	-	-
Due from other state agencies	-	-	2,164,542
Loans receivable	-	-	90,335,000
	19,794	20,653,318	92,499,542
Restricted Assets			
Cash and cash equivalents held for others by trustee			
Debt service	-	-	-
Bond reserve	-	4,704,653	26,516
Expense fund	-	-	40,443
Program - Grant proceeds for other state agency	-	-	2,550,488
Program - Bond proceeds	-	-	-
Total restricted assets	-	4,704,653	2,617,447
Total assets	$ 19,794	25,357,971	95,116,989
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued liabilities	$ -	-	2,204,985
Debt service payable	-	111,140	26,516
Notes payable	-	-	-
Funds held for others	-	-	2,550,488
Due to other state agencies	-	-	-
Due to other funds	-	72,375	-
Total liabilities	-	183,515	4,781,989
Fund balances - reserved for			
Debt service	19,794	25,174,456	90,335,000
Special revenue funds	-	-	-
Total fund balances	19,794	25,174,456	90,335,000
Total liabilities and fund balances	$ 19,794	25,357,971	95,116,989

See Notes to Financial Statements.

Federal Highway Forest Road Financing Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
$ -	50,437,186	23,710,699	94,360,012
-	-	2,392,667	2,853,652
-	1,384	7,242	8,626
-	15,491	513	16,004
-	-	-	2,164,542
18,066,445	-	-	108,401,445
18,066,445	50,454,061	26,111,121	207,804,281
-	-	32,452	32,452
3,970	-	532,196	5,267,335
1,002	-	45,357	86,802
-	-	105,429	2,655,917
13,463,160	-	1,264,222	14,727,382
13,468,132	-	1,979,656	22,769,888
		-	
$ 31,534,577	50,454,061	28,090,777	230,574,169
$ 41,002	15,381	94,128	2,355,496
3,970	-	-	141,626
-	-	2,000,000	2,000,000
13,463,160	-	-	16,013,648
-	-	35,525	35,525
-	31,258	32,027	135,660
13,508,132	46,639	2,161,680	20,681,955
18,026,445	-	4,044,758	137,600,453
-	50,407,422	21,884,339	72,291,761
18,026,445	50,407,422	25,929,097	209,892,214
$ 31,534,577	50,454,061	28,090,777	230,574,169

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NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

Total fund balances - governmental funds (Governmental funds balance sheet)	$ 209,892,214
Amounts reported for governmental activities in the statement of net assets are different because:	
Bond deferred issuance costs	3,466,079
Accrued interest payable	(2,210,648)
Interest receivable	50,306
Bonds payable	(180,057,000)
Bonds premium and discount, net	(2,087,321)
Net assets of governmental activities (Statement of net assets)	$ 29,053,630

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Administration Fee Revenue Program (TRIMS Project)	Metro Court Financing Fund	Highway 44 Financing Fund
Revenues			
Tax revenue	$ 8,968,159	5,416,914	-
Grant revenue	-	-	-
Interest on loans	-	44,705	4,357,336
Interest on investments	285,682	527,757	-
Other revenue	-	-	-
Total revenues	9,253,841	5,989,376	4,357,336
Expenditures			
Administrative fee	23,578	130,916	-
Professional services	45,764	47,542	-
Salaries and fringe benefits	-	-	-
In-state travel	-	-	-
Maintenance and repairs	-	-	-
Operating costs	-	-	-
Grant expense	-	-	-
Total current expenditures	69,342	178,458	-
Debt service			
Principal payments	19,099,600	1,810,000	5,050,000
Interest expense	153,775	2,642,876	4,357,336
Bond issuance costs	-	65,071	-
Total debt service expenditures	19,253,375	4,517,947	9,407,336
Excess (deficiency) of revenues over expenditures	(10,068,876)	1,292,971	(5,050,000)
Other Financing Sources (Uses)			
Bond proceeds	-	24,900,000	-
Transfers (to) from other funds	-	2,825,298	-
Transfers to other state agencies	(7,081,226)	(24,078,978)	-
Total other financing sources (uses)	(7,081,226)	3,646,320	-
Net change in fund balance	(17,150,102)	4,939,291	(5,050,000)
Fund balances - beginning	17,169,896	20,235,165	95,385,000
Fund balances - ending	$ 19,794	25,174,456	90,335,000

See Notes to Financial Statements.

Federal Highway Forest Road Financing Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
$ -	-	6,817,149	21,202,222
-	-	2,069,973	2,069,973
855,589	-	-	5,257,630
-	1,086,398	563,104	2,462,941
-	-	161,624	161,624
855,589	1,086,398	9,611,850	31,154,390
-	-	37,213	191,707
-	158,110	122,905	374,321
-	84,790	122,420	207,210
-	4,958	9,826	14,784
-	1,402	2,143	3,545
-	33,673	37,960	71,633
-	8,163,605	1,760,028	9,923,633
-	8,446,538	2,092,495	10,786,833
705,000	-	1,944,000	28,608,600
855,589	-	1,230,614	9,240,190
-	-	-	65,071
1,560,589	-	3,174,614	37,913,861
(705,000)	(7,360,140)	4,344,741	(17,546,304)
-	-	-	24,900,000
-	4,966,705	869,473	8,661,476
-	-	(2,203,439)	(33,363,643)
-	4,966,705	(1,333,966)	197,833
(705,000)	(2,393,435)	3,010,775	(17,348,471)
18,731,445	52,800,857	22,918,322	227,240,685
$ 18,026,445	50,407,422	25,929,097	209,892,214

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NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

Total fund balances - governmental funds (Governmental funds statement of revenues, expenditures and changes in fund balance)	$	(17,348,471)
Amounts reported for governmental activities in the statement of net activities are different because		
Issuance of bonds		(24,900,000)
Bond debt service principal payments		28,608,600
Change from prior year in:		
Amortization of bond issuance costs		(25,078)
Amortization of net bond premium		16,951
Interest expense on long-term debt is recognized when paid under the modified accrual basis of accounting		93,702
Interest receivable more than 60 days after year end does not meet the criteria specified for measurable and available under the modified accrual basis of accounting.		2,448
Change in net assets of governmental activities (Statement of activities)	$	(13,551,848)

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	DWRLF
ASSETS			
Cash and cash equivalents	$ 2,121,357	60,847,660	607,204
Receivables			
Taxes	-	1,523,830	-
Interest	-	1,485,851	88,154
Grant and other	12,390	101,081	2,296,183
Due from other funds	47,281	73,948	-
Total current assets	2,181,028	64,032,370	2,991,541
Loans, net of allowance	-	190,332,941	18,522,305
Securities	-	14,609,637	-
Restricted assets - cash and cash equivalents	-	41,613,374	11,192,716
Capital assets			
Depreciable property and equipment, net	16,648	8,024	5,384
Deferred issuance costs, net	-	2,046,897	-
Other assets	5,310	-	-
Total assets	$ 2,202,986	312,643,243	32,711,946
LIABILITIES			
Accounts payable and other liabilities	$ 40,762	293,599	157,746
Accrued payroll, fringe benefits and compensated absences	77,296	6,069	8,655
Accrued interest payable	-	744,959	-
Debt service payable	-	15,175,975	1,053,074
Funds held for others	-	22,641,109	9,966,700
Due to other state agencies	2,096,160	200,988	241,246
Due to other funds	-	1,573	-
Bonds payable, current	-	15,138,305	-
Total current liabilities	2,214,218	54,202,577	11,427,421
Bonds payable, long-term	-	167,193,838	-
Total liabilities	2,214,218	221,396,415	11,427,421
NET ASSETS			
Invested in capital assets	16,648	8,024	5,384
Restricted for:			
Debt service	(27,880)	68,618,265	21,130,962
Program funds	-	22,602,833	148,179
Unrestricted	-	17,706	-
Total net assets	(11,232)	91,246,828	21,284,525
Total liabilities and net assets	$ 2,202,986	312,643,243	32,711,946

See Notes to Financial Statements.

Primary Care Capital Fund	State Building Purchase Fund	Totals
$ -	32,949,861	96,526,082
-	500,000	2,023,830
-	-	1,574,005
-	-	2,409,654
-	-	121,229
-	33,449,861	102,654,800
4,917,304	-	213,772,550
-	-	14,609,637
2,383,684	-	55,189,774
-	-	30,056
-	398,434	2,445,331
-	-	5,310
$ 7,300,988	33,848,295	388,707,458
$ -	321,568	813,675
-	-	92,020
-	132,373	877,332
16,180	-	16,245,229
16,974	-	32,624,783
-	-	2,538,394
-	-	1,573
-	1,215,000	16,353,305
33,154	1,668,941	69,546,311
-	31,676,903	198,870,741
33,154	33,345,844	268,417,052
-	-	30,056
4,904,357	502,451	95,128,155
2,363,477	-	25,114,489
-	-	17,706
7,267,834	502,451	120,290,406
$ 7,300,988	33,848,295	388,707,458

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	DWRLF
Interest earnings			
Interest on loans	$ -	9,628,241	352,267
Interest on investments	4,133	1,243,754	199,748
Total interest earnings	4,133	10,871,995	552,015
Interest expense			
Debt service - interest expense	-	7,356,984	-
Net interest earnings	4,133	3,515,011	552,015
Provision for loan losses	-	39,497	-
Net interest earnings after provision for loan losses	4,133	3,475,514	552,015
Non-interest earnings			
Tax revenue	-	17,181,295	-
Federal grant revenue	-	-	2,813,365
Revolving loans grant revenue	-	-	5,939,950
Administrative fees	699,401	400,608	31,191
Total non-interest earnings	699,401	17,581,903	8,784,506
Non-interest expense			
Grant expense	-	2,798,896	-
Bond issuance costs	-	1,424,898	-
Administrative fee	-	400,608	31,191
Professional services	132,445	741,140	38,478
Salaries and fringe benefits	730,925	218,292	85,470
Technical set-aside expense	-	-	149,453
In-state travel	13,236	6,265	2,891
Out of state travel	4,611	-	7,159
Maintenance and repairs	12,472	3,182	1,407
Supplies	10,343	3,446	3,881
Operating costs	133,644	34,101	15,076
Depreciation	9,837	4,292	3,868
Total non-interest expense	1,047,513	5,635,120	338,874
Total non-interest earnings (expense) before transfers	(348,112)	11,946,783	8,445,632
Transfers			
Transfers in (out)	187,296	(8,848,772)	-
Transfers from (to) other state agencies	-	-	(2,004,212)
Total transfers	187,296	(8,848,772)	(2,004,212)
Change in net assets	(156,683)	6,573,525	6,993,435
Total net assets - beginning	145,451	84,673,303	14,291,090
Total net assets - ending	$ (11,232)	91,246,828	21,284,525

See Notes to Financial Statements.

Primary Care Capital Fund	State Building Purchase Fund	Totals
$ 206	-	9,980,714
249,067	782,074	2,478,776
249,273	782,074	12,459,490
-	1,617,690	8,974,674
249,273	(835,616)	3,484,816
-	-	39,497
249,273	(835,616)	3,445,319
-	6,000,000	23,181,295
-	-	2,813,365
-	-	5,939,950
-	-	1,131,200
-	6,000,000	33,065,810
-	-	2,798,896
-	22,238	1,447,136
-	50,723	482,522
-	5,756	917,819
-	-	1,034,687
-	-	149,453
-	84	22,476
-	-	11,770
-	-	17,061
-	-	17,670
-	-	182,821
-	-	17,997
-	78,801	7,100,308
-	5,921,199	25,965,502
-	-	(8,661,476)
-	(8,444,022)	(10,448,234)
-	(8,444,022)	(19,109,710)
249,273	(3,358,439)	10,301,111
7,018,561	3,860,890	109,989,295
$ 7,267,834	502,451	120,290,406

NEW MEXICO FINANCE AUTHORITY
COMBINED STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	Drinking Water Fund
Cash Flows From Operating Activities			
Cash paid for employee services	$ (715,749)	(217,271)	(84,011)
Cash paid to vendors for services	(281,610)	(641,169)	(224,282)
Bond issuance costs paid	-	(841,800)	-
Interest expense paid	-	(7,080,441)	-
Grants awarded	-	(2,798,896)	-
Tax revenue	-	16,779,028	-
Cash received from federal government for revolving loans	-	-	5,939,950
Interest income received	4,133	10,647,810	514,927
Administrative fees received	797,450	400,608	31,191
Net cash (used) provided by operating activities	(195,776)	16,247,869	6,177,775
Cash Flows From Non-Capital Financing Activities			
Operating transfers	187,296	(8,848,772)	-
Cash paid to subrecipients for services	-	-	(2,004,212)
Federal grant revenue received	-	-	1,438,252
Cash provided by funds held for others	1,696,917	599,858	921,839
Net cash provided (used) by non capital financing activities	1,884,213	(8,248,914)	355,879
Cash Flows From Capital and Related Financing Activities			
Securities	-	874,225	-
Loans funded	-	(63,708,628)	(5,939,950)
Loan payments received	-	14,399,569	523,741
Bonds issued	-	95,555,000	-
Payment of bonds	-	(16,019,936)	-
Fixed asset purchases	(7,789)	(6,111)	(2,469)
Net cash provided (used) by capital and related financing activities	(7,789)	31,094,119	(5,418,678)
Net increase (decrease) in cash and cash equivalents	1,680,648	39,093,074	1,114,976
Cash and cash equivalents - beginning of year	440,709	63,367,960	10,684,944
Cash and cash equivalents - end of year	$ 2,121,357	102,461,034	11,799,920
Reconciliation of operating income (loss) to net cash used by operating activities - operating income	$ (156,683)	6,573,525	6,993,435
Adjustments to operating income			
Depreciation and amortization	9,837	587,390	3,868
Bad debt expense	-	39,497	-
Net transfers	(187,296)	8,843,984	-
(Increase) decrease in prepaids and receivables	95,145	(43,354)	(846,241)
Increase (decrease) in payables and other accrued liabilities	43,221	246,827	26,713
Net cash (used) provided by operating activities	$ (195,776)	16,247,869	6,177,775

See Notes to Financial Statements.

Primary Care Fund	State Building Purchase Fund	Totals
$ -	-	(1,017,031)
-	(56,563)	(1,203,624)
-	-	(841,800)
-	(1,621,573)	(8,702,014)
-	-	(2,798,896)
-	6,000,000	22,779,028
-	-	5,939,950
249,273	782,074	12,198,217
-	-	1,229,249
249,273	5,103,938	27,583,079
-	-	(8,661,476)
-	-	(2,004,212)
-	-	1,438,252
(23,929)	(10,923,382)	(7,728,697)
(23,929)	(10,923,382)	(16,956,133)
-	-	874,225
-	-	(69,648,578)
333,723	-	15,257,033
-	-	95,555,000
-	(1,178,502)	(17,198,438)
-		(16,369)
333,723	(1,178,502)	24,822,873
559,067	(6,997,946)	35,449,819
1,824,617	39,947,807	116,266,037
$ 2,383,684	32,949,861	151,715,856
$ 249,273	(3,358,439)	10,301,111
-	22,238	623,333
-	-	39,497
-	8,444,022	17,100,710
-	-	(794,450)
-	(3,883)	312,878
$ 249,273	5,103,938	27,583,079

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NOTE 1. ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act), is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer, the Secretary of the Department of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, the Secretary of the Environment Department, the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, shall appoint to the Authority the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state except as specifically provided in the New Mexico Finance Authority Act.

The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

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.

The Authority is a governmental entity in accordance with Governmental Accounting Standard Board Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NOTE 1. ORGANIZATION (CONTINUED)

The financial reporting entity as defined by GASB Statement 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. The Authority is, however, considered to be a component unit of the State of New Mexico. The Authority does not have any component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Authority includes only one function (infrastructure financing).

The net cost (by function or business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Authority does not currently employ indirect cost allocation systems.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals on the business-type activities (Enterprise) fund statements match the business type activities column presented in the government-wide statements, since there are no reconciling items.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

The financial transactions of the Authority are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB Statement 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The Authority uses the following fund types:

Governmental Fund Types. The focus of governmental fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority.

Special Revenue Funds. The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Building Program-Cigarette Tax. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act in an amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds or any payments for refunding or redemption premiums on the bonds and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Water and Wastewater Project Grant Fund. This fund was created with the passage of Senate Bill 662 during the 1999 Legislative Session. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1 NMSA 1978, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project and to pay administrative costs of the water and wastewater project grant program.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any unexpended or unencumbered balance remaining at the end of the fiscal year shall not revert to the State's general fund. There was no sale of bonds made for this program for the year ended June 30, 2003.

Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 legislative session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Projects Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Water and Wastewater Planning Grant Fund The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant will not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

Emergency Drought Water Program Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

Debt Service Funds. The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administrative Fee Revenue Program (TRIMS Project). Chapter 125, Laws of New Mexico 1997 was enacted to authorize the Authority to sell up to $33,709,800 of bonds for the purpose of financing the New Mexico Taxation and Revenue Department (NMTRD) information management systems project (TRIMS Project). The TRIMS Project is an integration and updating of on-line, multi-user systems that process taxation, motor vehicle tax and fee collections, revenue distributions and information processing by the NMTRD. Revenue from NMTRD's administrative fees is pledged to repay the bonds. The Authority issued $17,440,660 of Administrative Fee Revenue Bonds Series 1997A in September 1997. The Authority issued the remaining $16,269,140 Administrative Fee Revenue Bonds Series 1999A in September 1999.

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

Highway 44 Financing Fund. Series 1998A Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 1998A Bonds were issued by the Authority to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico Highway and Transportation Department (NMSHTD), and are payable solely from the NMFA's rights to payments under a Loan Agreement between the NMFA and NMSHTD. $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds was issued on September 1, 1998. The Obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a revenue pledge, which consists of certain revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

Forest Highway Forest Road Financing Fund. Series 2001 Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 2001 Bonds were issued to finance the cost of an infrastructure project, which includes the design, reconstruction,

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21) to the extent for funding as part of the Federal Lands Highway Program and the New Mexico Statewide Transportation Improvement Program by the New Mexico State Highway and Transportation Department (NMSHTD). The Series 2001 Bonds are payable Solely from certain of the NMFA's rights to payments under a Loan Agreement (Series 2001 Loan Agreement) between the NMFA and NMSHTD. The obligations of NMSHTD under the Series 2001 Loan Agreement are payable solely from and secured by a pledge of the "Pledge Revenues," which consist of certain revenues received by or on behalf of NMSHTD pursuant to Chapters 1 and 20 of Title 12, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

Workers' Compensation Financing Fund. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the American with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint powers agreement to accomplish this purpose. $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of each calendar quarter, after all current obligations and any sinking fund requirements are met shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

State Capitol Improvement Financing Fund. The laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a State building located adjacent to the state capitol in Santa Fe known as the New Mexico state library and for relocation-associated renovations in the state capitol. $510,000 of revenue bonds were issued on May 17, 1999, and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, NMFA issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B, the proceeds of which were loaned to various governmental entities in the state.

The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance Department Financing Fund. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $1 million for the purpose of financing information and communication equipment, including computer hardware and software, for the New Mexico Department of Insurance. The Legislature imposed a three dollar ($3.00) surcharge on the annual continuation of appointment fees on approximately 60,000 insurance agents subject to the fees to provide security for the bonds. On April 18, 1996, the New Mexico Insurance Department requested the Authority to issue $525,000 of the authorized bonds for acquiring information and communication equipment. The bonds were privately placed in a transaction that closed on May 23, 1996, and the proceeds were transferred to the New Mexico Department of Insurance. The pledged revenues are paid to the Authority. Pledged revenue in excess of debt service and related expenditures may be appropriated by the Legislature to the Department of Insurance for the acquisition of information and communication equipment.

Court Automation Financing Program. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $8.5 million for the purpose of financing acquisition of court automation systems for the state court system, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. $8.5 million of court automation fee revenue bonds were issued on June 25, 1996. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provisions of the motor vehicle code involving the operation of a motor vehicle. The pledged revenues are paid to the Authority. Pledged revenues in excess of debt service and related expenditures may be appropriated by the Legislature to the Administrative Office of the Courts for the acquisition of court automation systems. The Bond was defeased during 2001.

Proprietary Fund Types. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Funds. Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs.

Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978.

Of the GGRT revenues directed to the Authority's Public Project Revolving Fund, which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater grant project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund, and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities or "leveraged" by pledging the revenue stream to the issuance of bonds and granting, or lending, the bond proceeds. All projects to be financed must be approved by the Legislature.

New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) creates the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority.

The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities.

Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and, 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law. *Primary Care Capital Fund.* The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health, and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority for assistance to the Department and administration of the Primary Care Capital Fund.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping, and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of (1) purchasing the National Educational Association Building on South Capitol Street in Santa Fe, New Mexico, (2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico and (3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may included the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authorities enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting. Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the proprietary financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Accrual. The enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (amounts collected within 60 days after year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

advances by the provider and deferred revenue by the recipient. The Authority was unable to reasonably estimate the amount of revenue earned but not yet received by the Taxation and Revenue Department by the June 30 year-end. As a result, the amount is not included as revenue in the financial statements.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer are invested by the New Mexico State Treasurer in the "overnight" repurchase program.

Interest is credited to the various programs based on the programs average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statues require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

Securities. The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds which are recorded at cost which approximates market value.

Loans. Loans are stated at their principal amount. Interest on loans is accrued for based on the daily principal balance outstanding except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on nonaccrual status.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses. The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors; including collateral value, past loan loss experience, current facts, and economic conditions. The allowance is based on management's estimates and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, any necessary adjustments are reported in income in the period they become known.

Property, Furniture and Equipment. Property, furniture and equipment purchased or acquired at a value of $1,000 or greater are capitalized. Property, furniture and equipment are stated at cost less accumulated depreciation. Furniture and equipment purchases with useful lives over one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years. In addition, furniture and equipment 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.

Income Taxes. The Authority is a tax exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

Accrued Compensated Absences Payable. Full-time employees are entitled to ten days annual leave with four years or less employment with the Authority. Employees with more than four years receive fifteen days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. Part-time employees accrue annual leave and sick leave on a prorated basis based on the number of hours they work. A full-time employee may receive cash payment at a rate of 50% of their hourly wage for any accrued sick leave in excess of forty hours up to a maximum of one hundred twenty hours on the first full pay period in July. An employee may accrue a maximum of 1,040 hours. Accumulated sick leave is not compensated on termination of employment unless the employees retire. Then the employee can be paid for accrued sick leave in the excess of 600 hours at 50% of their hourly wage rate, not to exceed 440 hours. Accrued compensated absences are recorded in the operating fund.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting. The Authority prepares a budget for the operations fund and for the DWRLF. Theses budgets are approved by the Authority's board but are not legally binding. The budgets are also amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the accounting on a budgetary basis and GAAP basis are that capital outlay is a budgetary expenditure and depreciation expense is not a budgetary expenditure.

Restricted Assets. Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "cash and cash equivalents held for others by the Authority" account is used to segregate bond proceeds that will be used for specific purposes as required by legislation. "Cash and cash equivalents pledged for repayment of bonds and bond expenses held by trustee" is used to report funds set aside for debt repayment, bond issuance, and other costs by the Authority.

Cash Flows. For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Discounts, Premiums and Issuance Costs. In governmental fund types, bond discounts, premiums and issuance costs are recognized in the current period. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

Fund Equity. Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets. The government-wide and business types Fund Financial Statements utilize a net asset presentation. Net Assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets which have third-party (statutory, bond covenant or granting agency) limitations on their use when there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

Use of Estimates. The preparation of the 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 amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund and Interagency Transactions. Interfund and Interagency Transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other Interfund transactions, except reimbursements and administrative fee transactions are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Interagency transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE

Funds held for other and short-term investments are held at the trustees in the name of the applicable government entity and the Authority's. The following is a reconciliation of cash and cash equivalents to the financial statements.

Cash and cash equivalents	Book Balance	Bank Balance
State Treasurer Local Government Investment Pool	$204,944,103	205,220,063
Money market accounts invested in American Performance U.S. Treasury Fund	40,749,514	40,749,514
Repurchase agreements	21,031,751	21,031,751
Wells Fargo operating accounts	2,120,388	37,914
	$268,845,756	267,039,242

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes deposits that are insured. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 represents deposits that are required by state statutes to be collateralized at a minimum level of 50%. All of the Authority's collected balances in bank accounts are invested in repurchase agreements. Deposits with the State Treasurer are not required to be categorized.

	Category			Bank	Book
	1	2	3	Balance	Balance
Wells Fargo operating accounts	$ -	37,914	-	37,914	2,120,388

The New Mexico State Treasurer's Office is responsible to ensure that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE (CONTINUED)

Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered investments, or for which securities are held by the counter party's trust department or agent in the Authority's name. The Authority does not have any Category 1 investments. The Authority does not have any Category 2 investments. Category 3 represents uninsured and unregistered investments, not held in the Authority's name. The Authority does not have Category 3 investments.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The source of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts which invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations. The Authority's investments are held by financial institutions in the Authority's name.

NOTE 4. LOANS RECEIVABLE

Loan receivable balances consist of the following at June 30, 2003:

Entity	Loan Balance
Proprietary funds	
Public Project Revolving Loan Fund	$ 191,192,098
Allowance for loan losses	(859,156)
	190,332,942
Primary Care Capital Fund	4,917,303
Drinking Water State Revolving Loan Fund	18,522,305
	213,772,550
Debt service funds	
Highway 44 Financing Fund	90,335,000
Federal Highway Forest Road Financing Fund	18,066,445
	108,401,445
	$ 322,173,995

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Public Project Revolving Loan Fund

The Public Project Revolving Fund loans receivable balance at June 30, 2003, is $191,092,096 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 72,643,725	32,234,849	104,878,574
July 1, 2008 to June 30, 2013	52,667,191	15,937,724	68,604,915
July 1, 2013 to maturity	65,881,182	15,702,846	81,584,028
	$191,192,098	63,875,419	255,067,517

An analysis for the allowance for loan losses is as follows:

Balance, beginning of year	$ (819,658)
Provision for loan losses	(39,498)
Balance, end of year	$ (859,156)

Management considers non-accrual loans to be impaired. As of June 30, 2003 there were no non-accrual loans. Based on management's analysis, there were no other impaired loans as of June 30, 2003.

Primary Care Capital Fund. Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 1,517,480	569,576	2,087,056
July 1, 2008 to June 30, 2013	1,811,043	366,016	2,177,059
July 1, 2013 to maturity	1,588,780	43,061	1,631,841
	$ 4,917,303	978,653	5,895,956

No allowance for uncollectible loans has been established as the primary care facilities and loan repayments are secured by applicable sources of pledged receivables.

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Drinking Water State Revolving Loan Fund. Terms for the Drinking Water State Revolving Loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 4,890,762	1,844,004	6,734,766
July 1, 2008 to June 30, 2013	5,836,390	1,258,844	7,095,234
July 1, 2013 to maturity	7,795,153	727,830	8,522,983
	$ 18,522,305	3,830,678	22,352,983

No allowance for uncollectible loans has been established as the Drinking Water Loans are secured by applicable sources of pledged receivables.

Highway 44 Financing Fund. The Highway 44 Financing Fund consists of one loan receivable with the New Mexico State Highway Department for $90,335,000 at June 30, 2003. Terms for the loan include an interest rate of 5.04%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 28,605,000	18,401,568	47,006,568
July 1, 2008 to June 30, 2013	35,690,000	11,297,392	46,987,392
July 1, 2013 to maturity	26,040,000	1,901,195	27,941,195
	$ 90,335,000	31,600,155	121,935,155

No allowance for uncollectible loans has been established as the State Highway Department is current on their payments and loan repayments are secured by applicable sources of tax revenues.

Federal Highway Forest Road Financing Fund. The Federal Highway Forest Road Financing Fund consists of one loan receivable with the New Mexico State Highway Department for $18,066,445 at June 30, 2003. Terms for the loan include an interest rate of 4.697%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 9,221,445	3,258,138	12,479,583
July 1, 2008 to June 30, 2013	8,845,000	901,635	9,746,635
July 1, 2013 to maturity	-	-	-
	$ 18,066,445	4,159,773	22,226,218

NOTE 5. SECURITIES

At June 30, 2003, securities for the Public Project Revolving Fund (PPRF) consisted of $13,428,015 Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, and 1998B), $40,923 of Jemez Springs Bonds, and $1,140,699 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resource Bonds have interest rates ranging from 3% to 5.95% with final maturity on June 1, 2017. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45% with a final maturity on May 1, 2012. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19% with final maturity on May 1, 2008. The securities are carried at cost which approximates market value.

The following is a summary of future maturity and interest to be collected based on contractual maturity of the securities after year-end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 5,012,559	3,256,843	8,269,402
July 1, 2008 to June 30, 2013	4,942,921	1,977,823	6,920,744
July 1, 2013 to maturity	4,654,157	591,087	5,245,244
	$ 14,609,637	5,825,753	20,435,390

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2003 consist of the following:

	Due To	Due From
Governmental Funds		
Water and Wastewater Grant Fund	$ 31,258	15,491
Water Trust Board	27,011	513
Metro Court	72,375	-
Emergency Drought Relief	2,462	-
Water Planning Grant	2,554	-
	135,660	16,004
Enterprise Funds		
Operations Fund	-	47,281
Public Project Revolving Fund	1,573	73,948
	1,573	121,229
	$ 137,233	137,233

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS (CONTINUED)

The transfers between funds for the year ended June 30, 2003 include a transfer from the Cigarette Tax Fund to the Operations Fund to fund the operations of the Authority in the amount of $1,811,909.

NOTE 7. DUE FROM OTHER STATE AGENCIES

A federal tax liability of $2,164,542 was recorded by the Authority to reflect a bond arbitrage tax liability related to the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1998A. The New Mexico Department of Transportation was the beneficiary of the bond proceeds and has concurred that the liability is owed. Additionally, the New Mexico Department of Transportation has agreed to satisfy the liability. The liability is reflected on the Authority's books (included in accounts payable and accrued liabilities), because the bonds are the legal obligation of the Authority.

NOTE 8. DUE TO OTHER STATE AGENCIES, GRANTS AND TRANSFERS

The following debt service funds transferred these amounts from the applicable bond proceeds to these entities for the year ended June 30, 2003:

The Worker Compensation Financing Fund transferred $403,439 in order to rebate excess debt service funds back to the entity.

The Insurance Department Financing Fund transferred $1,800,000 in order to rebate excess debt service funds back to the entity.

The Administrative Fee Revenue Program Fund (TRIMS Project) transferred $7,081,226 in order to rebate excess debt service funds back to the entity. The bond issue related to this fund is paid off in fiscal year 2003.

The Metro Court Financing Fund transferred $1,760,229 in order to rebate excess debt service funds back to the entity. Additionally, $18,438,949 was transferred to the Metro Court Administrator for the construction and equipping of the new Bernalillo County Metropolitan Court Building, and $3,879,800 in state legislated funds was transferred to the entity.

The State Building Purchase Fund transferred $8,044,022 to the State of New Mexico general fund in order to rebate excess debt service funds collected.

NOTE 8. DUE TO OTHER STATE AGENCIES, GRANTS AND TRANSFERS (CONTINUED)

The Drinking Water Fund transferred $2,004,212 to qualified entities for technical assistance

NOTE 9. CAPITAL ASSETS

The capital asset activity for the year is as follows:

		Balance July 1, 2002	Additions	Deletions	**Balance June 30, 2003**
Enterprise Funds					
Depreciable assets					
Furniture, fixtures and equipment at historical cost	$	239,420	16,369	-	**255,789**
Net fixed					
Accumulated depreciation:					
Furniture, fixtures and equipment		(207,736)	(17,997)	-	**(225,733)**
Capital assets, net	$	31,684	(1,628)	-	**30,056**

There are no capital assets in the governmental funds.

Depreciation expense was $9,837 in the Operations Fund, $4,292 in the Public Projects Revolving Fund, and $3,868 in the DWRLF for the year ended June 30, 2003.

NOTE 10. BONDS PAYABLE

Bonds outstanding as of June 30, 2003, for the Authority's enterprise funds consist of:

Public Project Revolving Funds.

Series 1995A. In July 1995, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1995A in the aggregate principal amount of $41,230,000.

NOTE 10. BONDS PAYABLE (CONTINUED)

Series 1996A. In September 1996, the Authority issued its Public Project Revolving Fund, Series 1996A in the aggregate principal amount of $17,625,000. The proceeds of the bonds were used to make loans to numerous governmental entities and to purchase bonds from the Department of Energy, Minerals and Natural Resources. Additionally, a portion of the proceeds of the bonds was used to make a $9,000,000 grant in 1996 and a $16,000,000 grant in 1998 to the Environment Department in exchange for a pledge of the Environment Department's share of certain moneys to the Authority to repay all outstanding public project revolving fund bonds.

The Series 1995A and 1996A bonds were partially defeased with the Series 2003B Refunding issue. The non-callable portion of the bonds totaled $5,250,000 at June 30, 2003 and was transferred to the Series 2003 B Refunding issue.

Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A Bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investment securities.

Series 1999A, 1999B, 1999C, and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax-exempt) and Series 1999 and 1999D (taxable) in the aggregate amount principal amounts of $13,135,000, $3,025,000, $2,265,000, and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Loan Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish, and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

NOTE 10. BONDS PAYABLE (CONTINUED)

Series 2000B and C. On September 1, 2000 the Authority issued $7,670,000 of Public Project Revolving Fund series B and $28,850,000 series C bonds. The series 2000B and C were issued to reimburse the Public Project Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2000B and C bonds.

Series 2002A. On July 2, 2002 the Authority issued $55,610,000 of Public Projects Revolving Fund series 2002A bonds. The series 2002A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2002A bonds.

Series 2003A. On April 3, 2003 the Authority issued $39,945,000 of Public Projects Revolving Fund series 2003A bonds. The series 2003A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2003A bonds.

Series 2003B. On June 5, 2003 the Authority issued $25,370,000 of Public Projects Revolving Fund series 2003B bonds. The series 2003B were issued to (i) refund the NMFA's outstanding Public Projects Revolving Fund Revenue Bonds, Series 1995A maturing on and after June 1, 2006 and Public Projects Revolving Fund Revenue Bonds, Series 1996A maturing on and after Jun 1, 2007, and (ii) finance the costs of issuance of the Series 2003B bonds and the refunding of the Series 1995A and 1996A bonds.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds Series 2002A were issued on December 15, 2001, for the purpose of financing the costs of acquiring, constructing, equipping, and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds outstanding as of June 30, 2003, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds are for the designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

Insurance Department Financing Fund. On May 23, 1996, the Authority issued $525,000 of New Mexico Finance Authority Insurance Department Surcharge Revenue Bonds, which *was* refunded on December 1, 1998 and reissued at $400,000, to finance information and communication equipment for the New Mexico Department of Insurance. A $3 surcharge on insurance agents annual fee is the only pledged revenue source for the repayment of the bonds and is paid to the Authority.

Administrative Fee Revenue Program Fund (TRIMS Project) Series 1997A and 1999A. On September 11, 1997 and September 20, 1999, the Authority issued $17,440,660 and $16,269,140 of New Mexico Finance Authority (TRIMS Project) revenue bonds, respectively. The bonds were issued to finance an information management system to assist in tax collections to be used by the New Mexico Taxation and Revenue Department (NMTRD). The principal and interest on the bonds are payable solely from and secured solely by the pledged revenues, which include revenues from administrative fees payable to and withheld by NMTRD from collections of municipal and country local option gross receipts taxes, and administrative fees from collections of solid waste assessment fees, boat excise tax and registration fees, tax intercept payments and water conservation fees, as well as proceeds of bonds and investment earnings on the proceeds and revenues.

NOTE 10. BONDS PAYABLE (CONTINUED)

Highway 44 Financing Fund. On September 1, 1998, the Authority issued $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds. The bonds were issued to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico State Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the Authority and NMSHTD. The obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a pledge, which consist of revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The Bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

Federal Highway Forest Road Financing Fund. On February 1, 2001, the Authority issued $18,535,000 of New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds, Series 2001. The Bonds were issued for the purpose of financing the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21).

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds. Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds are being issued by the NMFA

NOTE 10. BONDS PAYABLE (CONTINUED)

for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds are being issued pursuant to the bond resolution with a lien on the Pledged Court Facilities Revenues on parity with the liens thereon of the $21,600,000 New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A and the $11,400,000 New Mexico Finance Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued 2,904,000 aggregate principal amount of its Equipment Program Certificates of participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to thirteen local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities. Total interest expense incurred on bonds in the enterprise funds and the debt service funds were $8,974,674 and $9,240,192, respectively, for the year ended June 30, 2003.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds payable balances consist of the following at June 30, 2003:

	Amount	Interest Rate	Final Maturity
Enterprise funds			
PPRF 1997A	$ 6,602,503	4.25-4.90	June 1, 2017
PPRF 1999A, B, C and D	17,604,744	3.30-6.30	June 1, 2018
PPRF 2000A	3,270,000	4.10-5.30	June 1, 2009
PPRF 2000B and C	22,279,369	4.75-5.50	June 1, 2030
PPRF 2002A	48,501,073	2.00-5.00	June 1, 2026
PPRF 2003A	39,661,202	2.00-4.75	June 1, 2032
PPRF 2003B	44,413,253	2.00-4.00	June 1, 2021
State Office Building Financing Fund	32,891,902	4.00-5.00	June 1, 2021
	215,224,046		
To be paid out of Debt Service funds			
Special Cigarette Tax Revenue Bond	1,800,000	4.80-5.25%	June 1, 2006
Workers Compensation Financing Fund	3,475,000	5.00-5.60	Sept. 1, 2016
Highway 44 Financing Fund	90,335,000	3.95-5.52	Sept. 1, 2015
State Capitol Improvement Financing Fund	7,885,000	7.00	March 15, 2015
Federal Highway Forest Road Financing Fund	17,830,000	4.75-5.50	September 1, 2011
Equipment Loan Fund	2,642,000	4.50-6.30	Various
Metro Court	56,090,000	1.65-6.25	June 15, 2025
	180,057,000		
Bond premium and discount, net on debt service funds	2,087,321		
	182,144,321		
Total	$ 397,368,367		

NOTE 10. BONDS PAYABLE (CONTINUED)

The requirements to amortize the bonds outstanding are as follows:

	Principal	Interest	Total
2004	$ 26,555,305	19,405,939	45,961,244
2005	26,940,305	18,089,893	45,030,198
2006	27,133,305	16,980,292	44,113,597
2007	26,678,305	15,200,032	41,878,337
2008	26,310,305	14,121,967	40,432,272
2009-2013	125,139,004	53,287,746	178,426,750
2014-2018	85,134,838	23,750,153	108,884,991
2019-2023	40,095,000	8,824,810	48,919,810
2024-2028	11,532,000	1,436,920	12,968,920
2029-2032	1,850,000	224,663	2,074,663
	$ 397,368,367	171,322,415	568,690,782

The bonds payable activity for the year is as follows:

	Balance July 1, 2002	Additions	Deletions	**Balance June 30, 2003**
Enterprise Funds	$136,867,484	134,400,527	(56,043,965)	**215,224,046**
Debt Service Funds	185,673,826	25,242,029	(28,771,534)	**182,144,321**
	$322,541,310	159,642,556	(84,815,499)	**397,368,367**

NOTE 11. OPERATING LEASES

The Authority is committed under various lease agreements for office space, copying equipment and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2003 amounted to approximately $127,209. Future minimum lease payments for these leases are as follows:

Year Ending June 30	
2004	$ 131,649
2005	97,479
2006	7,525
	$ 236,653

NOTE 12. RETIREMENT PLAN

The Authority had established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were approximately $104,809, $91,277, and $99,700 for the years ended June 30, 2003, 2002, and 2001, respectively. Substantially all full time employees participate in this plan.

NOTE 13. CONTINGENCIES

The Authority is exposed to various risks of loss for which the Authority carries insurance (Auto; Employee Fidelity Bond; General Liability, Civil Rights; Property; and Worker's Compensation) with the State of New Mexico Risk Management Division and with private insurance companies.

The Authority is not subject to any legal proceedings, claims or liabilities at June 30, 2003.

NOTE 14. COMPENSATED ABSENCES

During the year ended June 30, 2003, the following changes occurred in the compensated absences liabilities:

Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003
$ 82,966	59,928	40,526	102,368

The portion of compensated absences due after one year is not material, and therefore, presented separately.

NOTE 15. SUBSEQUENT EVENTS

After June 30, 2003, the Authority issued the following PPRF Direct Loans, Federal Drinking Water Loans, Water Wastewater Grants, Planning Fund Grants, and Primary Care Loans:

	Closing Date	Amount
PPRF Cash Loans		
Taos County	7/8/2003	$ 1,830,000
Town of Red River	7/11/2003	166,667
Village of Cimarron	7/11/2003	184,501
Otero County	7/11/2003	387,487
Guadalupe County	7/11/2003	47,892
City of Texico	7/11/2003	221,094
Taos County	8/1/2003	331,701
Quay County	8/1/2003	34,783
Quay County	8/1/2003	91,112
Hidalgo County	8/15/2003	126,170
Hidalgo County	8/15/2003	72,339
Sierra County	8/15/2003	276,840
Sierra County	8/15/2003	66,550
Silver City	8/15/2003	385,147
Village of Ruidoso	8/15/2003	175,000
Sierra County	8/15/2003	276,840
Village of Angel Fire (Interim)	8/15/2003	39,500
Mora County (Interim)	8/22/2003	30,000
San Miguel County	8/29/2003	2,182,687
San Miguel County	8/29/2003	250,000
NM State University	9/5/2003	6,977,099
Eddy County (Interim)	9/12/2003	169,750
City of Grants	9/19/2003	1,495,000
City of Grants	9/19/2003	1,060,000
Carrizozo Municipal School District	9/26/2003	300,000
Tucumcari Municipal School District	9/26/2003	1,090,000
Village of Wagon Mound (Interim)	10/17/2003	75,000
Total PPRF Loans		$ 18,343,159
Federal Drinking Water Loans		
Northstar DWC & MSWC	8/15/2003	$ 1,779,798
Planning Fund Grants		
Desert Sands MDWCA	8/29/2003	$ 25,000
Pecan Park MDWCA	10/17/2003	15,400
Total Planning Fund Grants		$ 40,400

NOTE 15. SUBSEQUENT EVENTS (CONTINUED)

	Closing Date	Amount
Primary Care Loans		
Hidalgo Medical Center	8/27/2003	$ 1,100,000
Water Wastewater Grants		
City of Las Vegas	7/11/2003	$ 400,000
City of Belen	8/15/2003	3,490,132
Village of Canada De Los Alamos	8/22/2003	400,000
Green Ridge MDWCA	9/5/2003	400,000
La Cueva MDWCA	9/19/2003	161,600
Tierra Amarilla MDWA	9/26/2003	711,000
Town of Mountainair	10/3/2003	92,700
Dixon MDWCA	10/3/2003	300,600
Upper Canoncitos MDWCA	10/10/2003	270,000
		$ 6,226,032

NEW MEXICO FINANCE AUTHORITY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2003

	Workers' Compensation Financing Fund	Insurance Department Financing Fund	Court Automation Financing Fund	State Capitol Improvement Financing Fund
ASSETS				
Cash and cash equivalents	$ 545,475	604,880	32,498	342,853
Tax revenue receivable	191,239	77,805	-	-
Other assets	-	-	-	-
Due from other funds	-	-	-	-
Due from other state agencies				
Loans receivable	-	-	-	-
	736,714	682,685	32,498	342,853
Restricted Assets				
Cash and cash equivalents held for others by trustee				
Debt service	-	-	-	-
Bond reserve	148,924	-	-	-
Expense fund	-	-	-	-
Program - Grant proceeds for other state agency	14	-	1,177	4,126
Program - Bond proceeds	361,900	-	-	-
Total restricted assets	510,838	-	1,177	4,126
Total assets	$ 1,247,552	682,685	33,675	346,979
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$ -	-	-	80,263
Debt service payable	-	-	-	-
Notes payable	-	-	-	-
Funds held for others	-	-	-	-
Due to other state agencies	-	9,047	26,478	-
Due to other funds	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	-	9,047	26,478	80,263
Fund balances (deficit) - reserved for				
Debt service	1,247,552	673,638	7,197	266,716
Special revenue funds				
Total fund balances	1,247,552	673,638	7,197	266,716
Total liabilities and fund balances	$ 1,247,552	682,685	33,675	346,979

See Notes to Financial Statements.

Equipment Loan Fund	State Building Program Cigarette Tax	Water Project Fund	Emergency Drought Relief	Water Planning Grant	Other Governmental Funds
$ -	3,154,698	17,726,436	298,680	1,005,179	23,710,699
1,771,846	351,777	-	-	-	2,392,667
-	-	7,081	161	-	7,242
-	-	513	-	-	513
	-	-	-	-	-
-	-	-	-	-	-
1,771,846	3,506,475	17,734,030	298,841	1,005,179	26,111,121
32,452	-	-	-	-	32,452
-	383,272	-	-	-	532,196
45,357	-	-	-	-	45,357
-	100,112	-	-	-	105,429
-	902,322	-	-	-	1,264,222
77,809	1,385,706	-	-	-	1,979,656
					-
$ 1,849,655	4,892,181	17,734,030	298,841	1,005,179	28,090,777
$ -	-	9,657	1,774	2,434	94,128
-	-	-	-	-	-
-	2,000,000	-	-	-	2,000,000
-	-	-	-	-	-
-	-	-	-	-	35,525
-	-	27,011	2,462	2,554	32,027
-	-	-	-	-	-
-	2,000,000	36,668	4,236	4,988	2,161,680
1,849,655	-	-	-	-	4,044,758
	2,892,181	17,697,362	294,605	1,000,191	21,884,339
1,849,655	2,892,181	17,697,362	294,605	1,000,191	25,929,097
$ 1,849,655	4,892,181	17,734,030	298,841	1,005,179	28,090,777

NEW MEXICO FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Workers' Compensation Financing Fund	Insurance Department Financing Fund	Court Automation Financing Fund	State Capitol Improvement Financing Fund
Revenues				
Tax revenue	$ 976,712	1,142,717	-	993,844
Grant revenue	-	-	-	-
Interest on loans	-	-	-	-
Interest on investments	37,783	21,714	664	5,335
Other revenue	-	-	-	161,624
Total revenues	1,014,495	1,164,431	664	1,160,803
Expenditures				
Administrative fee	9,088	162	-	20,469
Professional services	1,270	-	1,269	1,270
Salaries and fringe benefits	-	-	-	-
In-state travel	-	-	-	-
Maintenance and repairs	-	-	-	-
Operating costs	-	-	-	-
Grant expense	-	-	-	-
Total current expenditures	10,358	162	1,269	21,739
Debt service				
Principal payments	160,000	65,000	-	400,000
Interest expense	191,252	2,600	-	573,125
Bond issuance costs	-	-	-	-
Total debt service expenditures	351,252	67,600	-	973,125
Excess (deficiency) of revenues over expenditures	652,885	1,096,669	(605)	165,939
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Transfers (to) from other funds	-	-	-	-
Transfers to other state agencies	(403,439)	(1,800,000)	-	-
Total other financing sources (uses)	(403,439)	(1,800,000)	-	-
Net change in fund balance	249,446	(703,331)	(605)	165,939
Fund balances - beginning	998,106	1,376,969	7,802	100,777
Fund balances - ending	$ 1,247,552	673,638	7,197	266,716

See Notes to Financial Statements.

Equipment Loan Fund	State Building Program Cigarette Tax	Water Project Fund	Emergency Drought Relief	Water Planning Grant	Other Governmental Funds
$ 2,201,529	1,502,347	-	-	-	6,817,149
-	-	-	2,069,973	-	2,069,973
-	-	-	-	-	-
3,429	115,170	355,666	7,610	15,733	563,104
-	-	-	-	-	161,624
2,204,958	1,617,517	355,666	2,077,583	15,733	9,611,850
7,494	-	-	-	-	37,213
-	19,720	66,607	25,079	7,690	122,905
-	-	73,625	38,910	9,885	122,420
-	-	7,140	2,640	46	9,826
-	-	1,321	656	166	2,143
-	-	27,771	8,172	2,017	37,960
-	-	-	1,760,028	-	1,760,028
7,494	19,720	176,464	1,835,485	19,804	2,092,495
719,000	600,000	-	-	-	1,944,000
251,187	212,450	-	-	-	1,230,614
-	-	-	-	-	-
970,187	812,450	-	-	-	3,174,614
1,227,277	785,347	179,202	242,098	(4,071)	4,344,741
-	-	-	-	-	-
-	(187,296)	-	52,507	1,004,262	869,473
-	-	-	-	-	(2,203,439)
-	(187,296)	-	52,507	1,004,262	(1,333,966)
1,227,277	598,051	179,202	294,605	1,000,191	3,010,775
622,378	2,294,130	17,518,160	-	-	22,918,322
$ 1,849,655	2,892,181	17,697,362	294,605	1,000,191	25,929,097

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2003

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	Bank of New York (New York)	HSBC New York (New York)	Total
Bank Accounts					
Operating account - checking	$ 36,406	-	-	-	36,406
Wire Transfers - checking	1,508	-	-	-	1,508
Repurchase Agreements	-	4,288,901	13,463,159	3,279,691	21,031,751
Total amount of deposits (bank balances)	37,914	4,288,901	13,463,159	3,279,691	21,069,665
FDIC coverage	(100,000)	-	-	-	(100,000)
Total uninsured public funds	(62,086)	4,288,901	13,463,159	3,279,691	20,969,665
Collateral requirement @ 102%	-	4,374,679	13,732,422	3,345,285	21,452,386
Pledges and securities					
FMCL, matures July 1, 2003					
Held at Wells Fargo, Albuquerque					
CUSIP 36225BNF1					
Par $3,138,270	3,293,132	-	-	-	3,293,132
UST, matures May 15, 2017					
Held at Wells Fargo, Albuquerque					
CUSIP 912810DY2					
Par $3,145,000	-	4,741,968	-	-	4,741,968
GNMA, matures March 15, 2032					
Held at Bank of New York, New York					
CUSIP 36225BTC3					
Par $12,777,326	-	-	14,001,686	-	14,001,686
UST, matures November 15, 2004					
Held at Wells Fargo, Albuquerque					
Par $3,470,000					
CUSIP 912833FV7	-	-	-	3,411,982	3,411,982
Over/(under) secured	$ 3,293,132	367,289	269,264	66,697	3,996,382

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES
Year Ended June 30, 2003

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 2,311,895

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditure of federal awards is prepared on the accrual basis of accounting.

NOTE B. FUNDS PASSED THROUGH TO SUBRECIPIENTS

Federal expenditures include funds passed through to subrecipients as follows:

CFDA Number	Subrecipient	Amount
66.468	New Mexico Environment Department	$ 2,004,212

NOTE C. LOANS FUNDED

	Original Balance	Balance at June 30, 2003
Revolving Loans		
Loans funded in previous years	$13,442,613	12,659,591
Loans funded in current year		
West Hammond Domestic	1,040,455	1,011,544
Pendaries Village	1,299,495	1,251,170
City of Albuquerque - Duranes	3,600,000	3,600,000
	5,939,950	5,862,714
Total loans funded	$19,382,563	18,522,305

The revolving loans are funded through a mix of 80% federal and 20% state monies. The technical set-aside loans are funded with 100% federal monies.

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Authority's ability to

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-1 and 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

In our opinion, the Authority complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

NEW MEXICO FINANCE AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2003

Comment	Current Status
02-1 Water/Waste Water Project Grant Fund Unauthorized Signatures	Resolved

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general-purpose financial statements of the New Mexico Finance Authority (Authority).

2. Two reportable conditions were disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.

4. No reportable conditions were disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

6. There were no audit findings relative to the major federal award program for the Authority.

7. The program tested as a major program is:

Program Name	CFDA Number
Capitalization Grants for Drinking Water State Revolving Funds	66.468

8. The threshold for distinguishing Type A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

03-1 Information System Security Policy

Condition

We noted that the Authority's employee handbook contains policies addressing the use of email and the Internet. However, the Authority does not currently have a comprehensive written Information System Security Policy.

Criteria

Formally communicated and comprehensive policies increase employee awareness with respect to the acceptable use of the Authority's computer resources.

Effect

Confidential data may be disclosed, whether intentionally or not. The Authority's computer systems may be compromised, whether intentionally or not.

Cause

The employee manual contains some, but not all, elements of a comprehensive Information System Security Policy.

Recommendation

We recommend that additional policies be drafted covering items such as software copyrights, password confidentiality and confidentiality of data, and that all policies be contained in a single document, either within the employee manual or as a stand-alone Information System Security Policy. We further recommend that such policies be communicated to all employees that have access to systems and data.

Management's Response

Management will draft and implement the additional recommended policies.

B. FINDINGS-FINANCIAL STATEMENT AUDIT (CONTINUED)

03-2 Information System Disaster Recovery Plan

Condition

The Authority does not currently have a comprehensive written Information System Disaster Recovery Plan that identifies key processes, step-by-step recovery procedures and anticipated recovery time frames.

Criteria

Without documented and tested recovery procedures, the Authority may not be able to process critical functions in the event of a disaster. Additionally, efforts for an orderly recovery may be hampered.

Effect

Critical data may be lost, and continuity of data processing processes could be interrupted in the event of a disaster.

Cause

The Authority has grown to the point where more formal plans are needed.

Recommendation

The Authority should develop a written business recovery plan. The business recovery plan should include documented, tested procedures, which, if followed, will ensure the ongoing capabilities of critical resources and continuity of operations. Copies of the plan should be distributed to key members of management and stored off-site.

Management's Response

Management will draft and implement the additional recommended policies.

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

None

An exit conference was held on November 25, 2003, and attended by the following:

New Mexico Finance Authority Personnel

James Jimenez, Audit Committee Chair
David W. Harris, Executive Director
Keith H. Mellor, Chief Financial Officer

Neff + Ricci LLP Personnel

Larry Carmony, Partner
Scott Eliason, Senior Manager

Neff + Ricci LLP assisted the Authority in preparing these financial statements.

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APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are extracts, supplementing the information in the body of the Official Statement, of certain provisions of the Indenture. These extracts do not purport to be complete and reference is made to the Indenture for a full and complete statement of such provisions. See "ADDITIONAL INFORMATION."

The following are certain definitions contained in the Indenture and extracts of certain provisions contained in the General Indenture and are not to be considered as a full statement thereof. Reference is hereby made to the Indenture for full details of all of the terms of the Bonds, the security provisions appertaining thereto and the other terms thereof. During the offering period of the Series 2004B Bonds, copies of the Indenture will be available at the principal office of the Underwriters. Subsequent to the offering of the Series 2004B Bonds, copies of the Indenture may be obtained from the Trustee.

CERTAIN DEFINITIONS

"Account" or "Accounts" means one or more of the special trust accounts created and established pursuant to the Indenture.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and as the same may hereafter be amended and supplemented.

"Additional Bonds" means any Bonds of the NMFA, authorized and issued under the Indenture, in compliance with the Indenture, except for the Series 1995A-B Bonds.

"Additional Pledged Loans" means any additional loans or securities which (i) were made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund and (ii) the payments of principal and interest on which have been specifically pledged by the NMFA to the payment of the Bonds and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Agreement" or "Agreements" means, as the case may be, one or more Loan Agreements, Grant Agreements or Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of a Project by the NMFA under the General Indenture.

"Agreement Pledged Revenues" means the pledged revenues designated by a Governmental Unit for payments to be made pursuant to the respective Loan Agreement, Security Documents or Securities.

"Agreement Reserve Fund" means the Agreement Reserve Fund established by the Indenture and each Agreement Reserve Account, if any, created by an Agreement.

"Agreement Reserve Requirement" for each Agreement establishing an Agreement Reserve Account, means the amount, if any, required by such Agreement to be allocated to an Agreement Reserve Account (relating to such Agreement) within the Agreement Reserve Fund.

"Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax Exempt Bonds.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

CATEGORY OF LOANS AND ADDITIONAL PLEDGED LOANS	**APPLICABLE PERCENTAGES**
CATEGORY I LOANS AND ADDITIONAL PLEDGED LOANS	100%
CATEGORY II LOANS AND ADDITIONAL PLEDGED LOANS	80%
CATEGORY III LOANS AND ADDITIONAL PLEDGED LOANS	50%
CATEGORY IV LOANS AND ADDITIONAL PLEDGED LOANS	0%

"Authorized Denominations" means, with respect to the Series 2004B Bonds, $5,000 or any integral multiple thereof and with respect to the Loans that are subject to the Sixtieth Supplemental Indenture, $5,000 and any other dollar amount in excess of $5,000.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary or Treasurer, and when used with reference to any act or document also means any other person authorized by resolution of the NMFA to perform such act or execute such documents; (ii) in the case of a Governmental Unit, means the person or persons authorized by resolution or ordinance of the Governmental Unit to perform any act or execute any document; and (iii) in the case of the Trustee or the Paying Agent any person authorized to perform any act or sign any document by or pursuant to the bylaws or any resolution of the governing body of the Trustee or the Paying Agent, respectively.

"Beneficial Owner" means, while DTC or its nominee is the registered owner of the Series 2004B Bonds, any person entitled to receive payment of principal of, premium, if any, and interest on Series 2004B Bonds and otherwise exercise ownership rights with respect to Series 2004B Bonds.

"Bond Counsel" means nationally recognized bond counsel experienced in matters of municipal law, satisfactory to the Trustee and listed in the list of municipal bond attorneys, as published semiannually by The Bond Buyer, or any successor publication.

"Bond Documents" means collectively, the Loan Agreements, the Grant Agreements, the Securities, the Security Documents, and the Indenture.

"Bond Fund" means the fund by that name established by the Indenture to be held by the Trustee and used to pay amounts due on the Bonds.

"Bond Fund Year" means a twelve-month period beginning on June 2 of each year and ending on the next succeeding June 1.

"Bond Registrar" or "Registrar" means the Trustee or any other registrar appointed under the Indenture.

"Bonds" means all Bonds issued and secured under the Indenture.

"Business Day" means any day, other than a day on which banks located in New York, New York or the cities in which the Principal Offices of the Trustee or the Paying Agent are located are required or authorized by law or executive order to close, or on which the New York Stock Exchange is closed.

"Cash Flow Statement" means an NMFA certificate (a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans and Grants or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate:

(A) the amount of NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(B) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(C) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding;

and (b) showing that in each such Bond Fund Year, the aggregate of the amount set forth in clause (A) of the definition divided by 1.35, plus the aggregate amount set forth in clause (B) of the definition, exceeds 100% of the aggregate of the amounts set forth in clause (C) of the definition.

For purposes of the foregoing definition the following assumptions will apply:

(i) NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12 month period in the 24 months next preceding the delivery of the Cash Flow Statement;

(ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(iii) Loans and Additional Pledged Loans will be assumed to remain in their then current category designations throughout the period projected in the Cash Flow Statement.

"Category I Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in at least the third highest full rating category or higher by the Rating Agency.

"Category II Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

"Category III Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are not designated or rated or are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

"Category IV Loans and Additional Pledged Loans" means all Non-Performing Loans and Additional Pledged Loans and Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been fully replenished in accordance with the related Agreement or loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

"Cede" means Cede & Co. and any substitute nominee of DTC who becomes the Registered Owner of any Series 2004B Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and the applicable regulations thereunder.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the NMFA and the Trustee dated the date of issuance and delivery of the Series 2004B Bonds, as originally executed as it may be amended from time to time in accordance with the terms thereof.

"Covenant Default" has the meaning, if any, given in any Loan Agreement, Securities or Additional Pledges Loan.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York.

"Expense Fund" means the fund by that name established by the Indenture to be held by the Trustee.

"Funds and Accounts" means collectively, the Debt Service Fund and the Accounts created in the Indenture, the Agreement Reserve Fund and the Accounts created therein, the Program Fund and the Accounts created therein, the Expense Fund, the Rebate Fund and the Accounts created therein, the Revenue Fund, and the Bond Fund.

"Governmental Obligations" means direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Governmental Units" means any "qualified entity" under the Act which has executed and delivered to the NMFA a Loan Agreement, Grant Agreement or Securities for the purpose of financing all or a portion of a Project.

"Grant Agreements" means a grant or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and does not require payments by the Governmental Unit to be made thereunder.

"Grants" means collectively, the Grants made pursuant to the Grant Agreements.

"Indenture" means the General Indenture of Trust and Pledge and all Supplemental Indentures thereto as the same may be amended and supplemented.

"Interest Component" means the portion of each Loan Payment representing interest on the related Loan.

"Interest Payment Date" means, with respect to the Series 2004B Bonds, each June 1 and December 1, beginning December 1, 2004.

"Loan Agreement" means a loan or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and requires the Governmental Unit to repay the amounts advanced.

"Loan Payment" means the payments made by each Governmental Unit pursuant to the provisions of a Loan Agreement or Securities and which are to be used in accordance with the Indenture.

"Loan Payment Date" means the date specified in each Loan Agreement or Securities as the due date for Loan Payments.

"Loans" means collectively, the Loans made pursuant to the Loan Agreements and the Securities; excluding, however, all Additional Pledged Loans. Loans and Additional Pledged Loans may be evidenced by the same document containing two or more separate obligations.

"NMFA Portion of the Governmental Gross Receipts Tax" means an amount equal to 75% of the net receipts attributable to the governmental gross receipts tax levied pursuant to Section 7-9-4.3, NMSA 1978, as amended, and distributed to the NMFA pursuant to Section 7-1-6.38, NMSA 1978, as amended.

"Nonperforming Loans and Additional Pledged Loans" means Loan Agreements and Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a Covenant Default) or under which a delinquency exists in payments of principal or interest thereunder.

"Original Issue Date" means, with respect to the Series 2004B Bonds, the date of delivery thereof.

"Outstanding" or "Bonds outstanding" mean all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) any Bond (or any portion thereof) (i) for the payment or redemption of which there will be held in trust under the Indenture and set aside for such payment or redemption, moneys and/or Governmental Obligations (not callable at the option of the issuer thereof) maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Governmental Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or redemption price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which will be given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

(c) Bonds deemed paid pursuant to the provisions of the Indenture; and

(d) Bonds in lieu of which others have been authenticated pursuant to the Indenture.

"Participants" means underwriters, securities brokers and dealers, banks and trust companies, clearing corporations and other persons from time to time for which DTC or any successor Securities Depository holds Series 2004B Bonds as Securities Depository.

"Paying Agent," when used with respect to the Series 2004B Bonds, means the person or persons authorized by the NMFA to pay the principal of, premium, if any, and interest on, the Series 2004B Bond on behalf of the NMFA, and initially is the Trustee.

"Permitted Investments" (i) with respect to the investment of the respective Accounts of the Program Fund, the Agreement Reserve Fund and the Debt Service Fund has the meaning set forth in each Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Expense Fund and the Rebate Fund or any other fund created under the Indenture, the following to the extent permitted by New Mexico law:

(a) Governmental Obligations;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);

(i) *Farmers Home Administration* (FmHA) Certificates of Ownership;

(ii) *Federal Housing Administration* (FHA) Debentures;

(iii) *General Services Administration* Participation certificates;

(iv) *Government National Mortgage Association* (GNMA or "Ginnie Mae") GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates);

(v) *U.S. Maritime Administration* Guaranteed Title XI financing;

(vi) *U.S. Department of Housing and Urban Development* (HUD) Project Notes and Local Authority Bonds;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself;

(i) *Federal Home Loan Bank System* Senior debt obligations (Consolidated debt obligations);

(ii) *Federal Home Loan Mortgage Corporation* (FHLMC or "Freddie Mac") rated AAA by Standard & Poor's and Aaa by Moody's. Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) *Federal National Mortgage Association* (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) *Student Loan Market Association* (SLMA or "Sallie Mae") Senior debt obligations;

(v) *Resolution Funding Corp.* (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(vi) *Farm Credit System* Consolidated systemwide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm" or "Aam" or by Moody's of "Aaa" including funds from which the Trustee or its affiliates revenue fees for investment advisory or other services to such funds.

(e) Certificates of deposit ("CD") secured at all times by collateral described in (a) and/or (b) above. CD's must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+"or better by S&P, and "Prime-1" or better by Moody's. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

(g) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1+" by S&P;

(j) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the NMFA by the Rating Agency;

(k) Investment contracts with providers the long term, unsecured debt organization of which are rated at least "A" by the Rating Agency; and

(l) deposits with the Treasurer of the State for investment in obligations described above.

"Permitted Investments" also means, with respect to the Sixtieth Supplemental Indenture, Permitted Investments as defined in the Indenture, to the extent also permitted by Ambac Assurance for the investment of funds and accounts established in connection with the Series 2004B Bonds, as provided in the Sixtieth Supplemental Indenture and as described below under the caption "PROVISIONS RELATING TO THE INDENTURE – Provisions Relating to the Series 2004B Bond Insurer – Permitted Investments."

"Prepayment" means the amount paid by a Governmental Unit pursuant to the provisions of its Loan Agreement or Securities as a prepayment of all or a portion of the principal balance due under its Loan Agreement or a prepayment of the principal amount of the Securities.

"Principal Component" means the portion of each Loan Payment representing principal on the related Loan.

"Program" means the NMFA's public project revolving fund program.

"Program Costs" means the fees and expenses payable to the Trustee, any Paying Agent and the NMFA.

"Program Fund" means the fund by that name which is created and established by the Indenture.

"Projects" means, collectively, the projects (i) authorized by the Legislature for financing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture and a Loan Agreement, Grant Agreement or Securities.

"Public Project Revolving Fund" means the public project revolving fund established pursuant to the Act.

"Purchasers" means, with respect to the Series 2004B Bonds, Piper Jaffray & Co. and Banc of America Securities, LLC.

"Rating Agency" means Moody's Investors' Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

"Rebate Calculation Date" means, with respect to each Series of Bonds, the interest payment date next preceding the fifth anniversary of the issue date of such Series of Bonds, each fifth anniversary of the Initial Rebate Calculation Date for such Series of Bonds, and the date of retirement of the last bond for such Series.

"Rebate Fund" means the Fund so designated, which is created and established by the Indenture.

"Rebate Requirement" means the amount of arbitrage profits earned from the investment of gross proceeds of the Bonds in nonpurpose investments described in Section 148(f)(2) of the Code and defined as "Rebate Amount" in Section 1.148-3 of the Treasury Regulations, which are payable to the United States at the times and in the amounts specified in Section 148(f)(3) of the Code and Section 1.148-3 of the Treasury Regulations.

"Register" means the record of ownership of the Series 2004B Bonds maintained by the Registrar.

"Registered Owner" or "Bondowner" or "Owner" or "Bondholder" or "holder" means the person or persons in whose name or names a Bond will be registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture.

"Regular Record Date" means the fifteenth (15th) day immediately preceding each Interest Payment Date (or the Business Day immediately preceding such fifteenth (15th) day, if such fifteenth (15th) day is not a Business Day).

"Representation Letter" means the blanket representations letter from the NMFA to DTC in substantially the form attached to the Sixtieth Supplemental Indenture of Trust as Exhibit "B."

"Revenue Fund" means the Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund so designated, which is created and established by the Indenture to be held by the Trustee.

"Revenues" means (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund).

"Securities" means the securities purchased or acquired by the NMFA in consideration for a Loan made pursuant to the Indenture.

"Securities Depository" means the person who operates the computerized book entry system through which ownership interest in the 2004B Bonds may be recorded. Such entity shall at all times be a registered clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and in good standing thereunder.

"Security Documents" means the intercept agreements or other security documents delivered by Governmental Units to provide additional security for a Loan Agreement or Securities.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefore.

"Series 1995 Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1995A, in an initial aggregate principal amount of $41,230,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 1995B, in an initial aggregate principal amount of $4,000,000.

"Series 1996 A & B Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1996A, in an initial aggregate principal amount of $17,625,000 and the Public Project Revolving Fund Revenue Bonds Taxable Series 1996B, in an initial aggregate principal amount of $3,500,000.

"Series 1997 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 1997, in an initial principal amount of $8,585,000.

"Series 1999A-D Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1999A, in an initial aggregate principal amount of $13,135,000, the Public Project Revolving Fund Revenue Bonds, Series 1999B, in an initial aggregate principal amount of $3,025,000, the Public Project Revolving Fund Revenue Bonds, Taxable Series 1999C, in an initial aggregate principal amount of $2,265,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 2000 in an initial aggregate principal amount of $4,875,000.

"Series 2000A Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 2000A, in an initial aggregate principal amount of $4,715,000.

"Series 2000B-C Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2000B, in an initial aggregate principal amount of $7,670,000 and the Public Project Revolving Fund Revenue Bonds, Series 2000C, in an initial aggregate principal amount of $28,850,000.

"Series 2002A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2002A, in an initial aggregate principal amount of $55,610,000.

"Series 2003A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2003A, in an initial principal amount of $39,945,000.

"Series 2003B Bonds" means the Public Project Revolving Fund Revenue Refunding Bonds, Series 2003B, in an initial principal amount of $25,370,000.

"Series 2004A Bonds" means, collectively, the Series 2004A-1 Bonds and the Series 2004A-2 Bonds.

"Series 2004A-1 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004A-1, bearing interest at the rates described therein and in the aggregate principal amount of $28,440,000.

"Series 2004A-2 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004A-2 (Taxable), bearing interest at the rates described therein and in the aggregate principal amount of $14,365,000.

"Series 2004B Bond Insurance Policy" means, with respect to the Series 2004B Bonds, the municipal bond insurance policy issued by the Series 2004B Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2004B Bonds, as provided therein.

"Series 2004B Bond Insurer" means, with respect to the Series 2004B Bonds, Ambac Assurance Corporation.

"Series 2004B Bonds" means, collectively, the Series 2004B-1 Bonds and the Series 2004B-2 Bonds.

"Series 2004B-1 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004B-1, bearing interest at the rates described therein and in the aggregate principal amount of $48,135,000.

"Series 2004B-2 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004B-2 (Taxable), bearing interest at the rates herein described and in the aggregate principal amount of $1,405,000.

"Special Record Date" means a special record date established pursuant to the Indenture.

"State" means the State of New Mexico.

"Supplemental Indenture" means any supplemental indenture approved by the NMFA in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture.

"Trust Estate" means the property held in trust by the Trustee pursuant to the Granting Clauses of the Indenture.

"Trustee" means Bank of Albuquerque, N.A., Albuquerque, New Mexico and its successors and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Trustee at the time serving as successor Trustee under the Indenture.

THE INDENTURE

Registration and Exchange of Bonds

Books for the registration and for the transfer of the Bonds will be kept by the Trustee which is appointed the Bond Registrar with respect to the Bonds. Any Bond may, in accordance with its terms, be transferred only upon the registration books kept by the Bond Registrar, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Registrar, duly executed. No transfer will be effective until entered on the registration books kept by the Registrar. Upon surrender for transfer of any fully registered Bond at the principal corporate trust office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing and satisfactory to the Trustee, the NMFA will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees a new, fully registered Bond or Bonds for a like aggregate principal amount. Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series and the same maturity. The execution by the NMFA of any Bond of any authorized denomination will constitute full and due authorization of such denomination, and the Trustee will thereby be authorized to authenticate and deliver such Bond. The NMFA and the Trustee will not be required to transfer or exchange any Bond of a particular Series (i) during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date, (ii) during the period from and including the day fifteen days prior to any Special Record Date, to and including the date of the proposed payment pertaining thereto, (iii) during the period from and including the day fifteen days prior to the mailing of notice calling any Bonds of a particular Series for redemption, to and including the date of such mailing, or (iv) at any time following the mailing of notice calling such Bond for redemption.

The NMFA, the Bond Registrar and the Paying Agent may treat and consider the person in whose name each Bond is registered on the registration books kept by the Registrar as the holder and absolute owner thereof for the purpose of receiving payment of, or on account of, the principal or redemption price thereof and interest due thereon and for all other purposes whatsoever, and neither the NMFA, nor the Bond Registrar nor the Paying Agent will be affected by any notice to the contrary. Payment of or on account of either principal of or interest on any Bond will be made only to or upon order of the Registered Owner thereof or such person's legal representative, but such registration may be changed as hereinabove provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

The Trustee will require the payment by the Registered Owner requesting exchange or transfer, only of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

Nonpresentment of Bonds

In the event that any Bond are not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond are made available to the Trustee for the benefit of the holder or holders thereof, all liability of the NMFA to the holder thereof for the payment of such Bond will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds, without liability to the holders of such Bonds for interest thereon, for the benefit of the holder of such Bond who will thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond. Moneys so deposited with the Trustee which remain unclaimed four (4) years after the date payment thereof becomes due will, to the extent authorized by applicable law, at the request of the NMFA and if the NMFA is not at the time to the knowledge of the Trustee in default with respect to any covenant contained in the Indenture and if to the knowledge of the Trustee there has been no Event of Default, be repaid to the NMFA and the Owners of the Bonds for which the deposit was made will thereafter be limited to a claim against the NMFA; provided that the Trustee, before making payment to the NMFA, may cause a notice to be given to the Owners of the Bonds at their registered addresses, stating that the moneys remaining unclaimed will be returned to the NMFA after a specified date. Upon payment of such amounts to the NMFA by the Trustee, the NMFA will deal with such money as required by applicable law.

Covenants of the NMFA

The NMFA will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or Supplemental Indenture or in any Bond, including the following covenants and agreements:

Covenant Against Creating or Permitting Liens. Except for the pledge of the Trust Estate to secure payment of the Bonds, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto; provided, however, that (i) nothing contained in the Indenture will prevent the NMFA from issuing, if and to the extent permitted by law, indebtedness having a lien on the Trust Estate subordinated to that of the Bonds and (ii) Revenues constituting NMFA Portion of the Governmental Gross Receipts Tax and payments of Additional Pledged Loans not needed for payments under the Indenture in any Bond Year may be released to the NMFA free and clear of the lien as provided in the Indenture.

Existence; Compliance with Laws. The NMFA will take no action to discontinue maintenance of its existence nor to impair its rights, powers, privileges, and franchises, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements, and directions of any legislative, executive, administrative, or judicial body which may relate to the execution and delivery of the Bonds and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Grant Agreements, Security Documents and Securities; Exceptions, Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Grant Agreements, Security Documents and Securities except as specifically authorized in the Indenture in furtherance of the security for the Bonds; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan Agreement, Grant Agreement, Securities, or Additional Pledge Loan and complied with the other provisions thereof, the NMFA and the Trustee may release such Agreement or Additional Pledge Loan and any Security Documents from the pledge created under the Indenture; and (ii) the NMFA may direct the release of any Agreement or Additional Pledged Loan from the lien and pledge of the Trust Estate under the Indenture upon the delivery to the Trustee of a Cash Flow Statement reflecting such release. Except to the extent otherwise provided in the Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners may be impaired and will, from time to time, execute and deliver such further instruments and will take such further action as may be required to carry out the purposes of the Indenture.

Financing Statements. The NMFA and the Trustee will cause the Indenture to be filed as a financing statement with the Secretary of State of the State, in such manner and at such places as may be required by law fully to protect the security interest of the Owners in the Bonds and the right, title, and interest of the Trustee in and to the Trust Estate. From time to time, the Trustee may, but will not be required to, obtain an opinion of counsel setting forth what, if any, actions by the NMFA or Trustee should be taken to preserve such security. The NMFA will execute or cause to be executed any and all further instruments as may reasonably be requested by the Trustee for such protection of the interests of the Registered Owners, and will furnish satisfactory evidence to the Trustee that such actions have been taken and will take such other action as is necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds executed and delivered under the Indenture has been paid. The Trustee will execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as it may be advised by an opinion of Counsel may be necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the Principal of and interest on the Bonds have been paid.

Rights Under Loan Agreements; Grant Agreements, Security Documents and Securities. The Loan Agreements, Grant Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions of the Indenture, the Loan Agreements, Grant Agreements, Security Documents and Securities may not be effectively amended, changed, modified, altered or terminated without the prior written consent of the Trustee in accordance with the Indenture, and reference is made to the same for a detailed statement of said covenants and obligations of the Governmental Units thereunder.

Bonds to be Tax-Exempt Obligations. The NMFA covenants and agrees to and for the benefit of the Owners of Bonds that the NMFA (i) will not take any action that would cause interest on the Bonds to become subject to federal income taxation, (ii) will not omit to take or cause to be taken, in timely manner, any action, which omission would cause the interest on the Tax-exempt Bonds to become subject to federal income taxation, and (iii) will, to the extent possible, comply with any other requirements of federal tax law applicable to the Bonds in order to preserve the exemption from federal income taxation of interest on the Bonds. The provisions of this paragraph do not apply to Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

State Pledge of Non-Impairment. The State has pledged to and agreed with the Bondholders (as an obligation issued under the Act) that the State will not limit or alter the rights vested in the NMFA under the Act to fulfill the terms of the Indenture with the Bondholders or in any way impair the rights and remedies of those holders until the Bonds together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Deposit and Advance of Funds

The NMFA and the Trustee will deposit the proceeds of the Bonds to the Accounts created under the Indenture and will make the advances of funds thereunder to fund the Program and the NMFA will enter into the Loan Agreements and Grant Agreements with the Governmental Units and purchase and receive the Securities and Security Documents from the Governmental Units on the terms and conditions and upon submission of the documents as provided in the Indenture.

Loan Agreement and Securities - Loan Payments

The Loan Payments will be governed by the following provisions:

(a) Principal, Program Costs and Interest Components. A portion of each Loan Payment is paid as, and represents payment of, interest (the "Interest Component") on the related Loan and payment of a Program Cost component relating to each loan (the "Program Cost Component") and the balance of each Loan Payment is paid as, and represents payment of, principal (the "Principal Component") on the related Loan, all as set forth in the related Loan Agreement or Securities. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on each Loan Payment Date. The Interest Component of Loan Payments for each Loan Agreement will be the amount of interest based on a 360 day year comprised of twelve 30-day months, unless otherwise specified in the related Supplemental Indenture. The Program Cost Component may be included in the interest rate borne by a Loan.

(b) Loan Agreement and Securities Term. The "Term" of a Loan Agreement or Securities will be defined in the Loan Agreement or Securities. The Term will not exceed the useful life of the Project financed pursuant to the related Loan Agreement or Securities.

(c) Agreement Payment. Each Loan Agreement and Security will provide that the related Governmental Unit will pay Loan Payments directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less a 0.25% administration fee retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date. In the case of Securities, the Securities will be registered in the name of the Trustee or properly assigned to the Trustee on the books of any registrar for such Securities or, if in bearer form delivered to and held by the Trustee.

(d) Prepayments. The Loan Agreements and Securities may contain a provision permitting the Governmental Unit to prepay the Principal Component of the Loan Payments, in accordance with the provisions of the Loan Agreement and Securities by payment of Prepayments in whole on any date or in part on any Interest Payment Date, at any time when the related Series of Bonds are or are about to become subject to optional redemption upon not less than forty-five (45) days' prior written notice to the Trustee and subject to any other conditions set forth in the related Supplemental Indenture, Loan Agreement or Securities. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination. Each Prepayment will include interest to the date upon which the Trustee has scheduled a related redemption of Bonds as provided in the related Supplemental Indenture.

(e) Use of Reserve at Final Payment. At the time of payment in full of each Loan Agreement or Securities, the applicable Agreement Reserve Account in the Agreement Reserve Fund will be applied toward the final payment of amounts due under the related Loan Agreement or Securities.

Establishment of Funds and Accounts

There is established in the Indenture with the Trustee the following funds and accounts within funds, each of which will be held, for the term of the Indenture, in Accounts segregated from all other moneys of the Trustee or the NMFA.

(a) a Program Fund and within such fund a separate Account for each Agreement;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement, which separate Account is established and maintained by the NMFA;

(c) a Bond Fund;

(d) an Agreement Reserve Fund and within such fund, a separate Account for each Agreement which contemplates the establishment of an Agreement Reserve Account;

(e) an Expense Fund;

(f) a Rebate Fund and within such fund a separate Account for each Agreement; and

(g) a Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund (the "Revenue Fund") established as an account of the Public Project Revolving Fund.

In addition to the foregoing, with respect to Additional Pledged Loans the Trustee may, as directed in a Supplemental Indenture, establish subaccounts within the Program Fund, the Agreement Reserve Fund or the Debt Service Fund for such Additional Pledged Loans.

Flow of Funds

All Funds will be accounted for and maintained by the NMFA in the Funds and Accounts established in the Indenture. Each Fund and Account will be kept separate and apart from all other Funds and Accounts of the NMFA. The Funds will be expended and used by the Trustee and the NMFA only in the manner of order and priority specified below:

Program Fund. Upon the issuance of a Series of Bonds the Trustee will deposit an amount specified in the related Supplemental Indenture in the Program Fund and will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement. Disbursements from each Account within the Program Fund may be made in stages. Disbursements from each Account within the Program Fund with respect to an Agreement with a Governmental Unit will (except for amounts to be used for capitalized interest on the Loan and as may be directed in a Supplemental Indenture with respect to Grants) only be made upon the delivery to the Trustee of a requisition substantially in the form attached to each Agreement signed by an Authorized Officer of the Governmental Unit.

Application of Loan Payments. The flow of funds is discussed in the forepart of this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS - Flow of Funds."

Pursuant to the Supplemental Indenture authorizing the Series 2000A Bonds, the payments required to be made by the 2000A Governmental Unit pursuant to the 2000A Agreement are to be paid directly to the Trustee from the New Mexico Taxation and Revenue Department pursuant to an Intercept Agreement between NMFA and the 2000A Governmental Unit, and the Trustee is to deposit all such payments immediately upon receipt thereof as follows:

(i) moneys identified by the NMFA as being from the receipt of the Correctional Facility Tax will be deposited into the Series 2000A Correctional Facility Tax Account and moneys identified by the NMFA as being from the receipt of the 2000A Governmental Unit Gross Receipts Tax will be deposited into a Series 2000A Governmental Unit Gross Receipts Tax Account, both in the Series 2000A Tax Revenue Fund;

(ii) moneys on deposit in the Series 2000A Correctional Facility Tax Account will be applied as follows:

First: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent moneys are available for such purpose, to the payment of Program Costs;

Third: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Agreement Reserve Fund until such time as the balance on deposit in said Account equals the Agreement Reserve Requirement of such Account; and

Fourth: to the extent moneys are available for such purpose, to the Series 2000A Correctional Facility Tax Redemption Fund to annually redeem Series 2000A Bonds on or as soon as is reasonably practicable after June 2 from moneys deposited prior to the preceding June 1 in accordance with the Supplemental Indenture. Any excess Correctional Facility Tax revenues not applied to redemption will be returned to the 2000A Governmental Unit Debt Service Account.

(iii) moneys on deposit in the Series 2000A Governmental Unit Gross Receipts Tax Account will be applied as follows:

First: to the extent moneys from the Series 2000A Correctional Facility Tax Account deposited into the 2000A Governmental Unit Debt Service Account and the 2000A Governmental Unit Agreement Reserve Account in the Agreement Reserve Fund are insufficient to meet the then required principal and interest payments due or to next become due with respect to the 2000A Agreement, to the 2000A Governmental Unit's Debt Service Account the amount necessary to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent money from the Series 2000A Correctional Facility Tax Account are insufficient to pay the 2000A Governmental Unit's share of Program Costs, an amount necessary to pay such Program Costs; and

Third: to the 2000A Governmental Unit, the balance of the moneys remaining in the Series 2000A Governmental Unit Gross Receipts Tax Account as soon as reasonably practicable after June 2 of each year.

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement), will be deposited in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement, provided, however, that all earnings received on the Governmental Unit's Accounts will be allocated solely to the benefit of such Governmental Unit. The Trustee will notify the Governmental Unit at least fifteen (15) days prior to the due date of its next payment of Loan Payments of the amount of earnings so allocated.

In the event that the Trustee receives Prepayments under a Loan Agreement or Securities, the Trustee will apply such Prepayments to the mandatory redemption of the Bonds or portions thereof in accordance with the related Supplemental Indenture, except with respect to the Series 2004B Bonds, which are subject to the provisions of the Indenture discussed in the forepart of this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS – NMFA Covenants Concerning Agreement Prepayments."

At least once a year the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) to pay the Governmental Unit's share of Program Costs for the year, and will return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; provided, however, that with respect to Loans relating other than to the Series 2000 Bonds, any such excess will be disbursed as follows:

(a) Any excess attributable to earnings on funds and accounts for the Governmental Unit will be returned to the Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; and

(b) Any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the relevant Bonds will be deposited into the Revenue Fund; and, provided further, however, that with respect to the Series 2000A Loan Agreement, any such excess will be disbursed as provided in the second paragraph under this heading "Application of Loan Payments" above.

Amounts on deposit in the respective Account of the Agreement Reserve Fund in excess of the related Agreement Reserve Account Requirement will be transferred at least annually to the related Accounts of the Debt Service Fund and credited against payments next coming due under such Loan Agreement or Securities.

Amounts on deposit in the respective Account of the Agreement Reserve Fund will be applied toward the final payment of amounts falling due under the related Loan Agreement or Securities.

As provided in an Agreement, a Governmental Unit may (i) fund an Account in the Agreement Reserve Fund over time from deposits made by or on behalf of the Governmental Unit or (ii) may use any reserve fund surety or similar investments in lieu of a cash deposit to the Agreement Reserve Fund.

Amounts on deposit in each Agreement Reserve Account, if any, secure only the payments to be made under the related Agreement and may not be applied toward payments under any other Agreement or toward payment of the Bonds, except to the extent that amounts are due and owing under the related Agreement and amounts are not otherwise available for such payments in related Account of the Debt Service Fund.

All moneys held by the Trustee in the Bond Fund will be applied in accordance with the Indenture to pay the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and the interest on Bonds as it becomes payable. There will be deposited into the Bond Fund all accrued interest received, if any, at the time of the execution, sale and delivery of the Bonds.

Amounts remaining on deposit in the Bond Fund at the end of each Bond Fund Year and after payment of all amounts due on the Bonds for such Bond Fund Year will be transferred to the Revenue Fund.

Investment of Moneys

Any moneys held as part of a Governmental Unit's Account in any of the Funds established under the Indenture will be invested and reinvested by the Trustee at the direction of the related Governmental Unit in Permitted Investments in accordance with the following provisions.

Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due. In the absence of an appropriate direction from a Governmental Unit as to investment of funds, the Trustee will invest and reinvest such amounts in a daily money market fund which invests only in United States Government Obligations.

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established under the Indenture or (ii) by the NMFA as agent for the Trustee will be invested and reinvested by the NMFA or the Trustee, as the case may be, at the direction of the related Governmental Unit in Permitted Investments as directed by the Loan Agent or the Securities and in accordance with the following provisions.

The Trustee or the NMFA will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund or the Bond Fund will be invested and reinvested by the Trustee at the direction of the NMFA only in Permitted Investments in accordance with the Indenture. Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of the investments on deposit in the Bond Fund whenever the cash balance in the Bond Fund is insufficient to pay the principal of and premium, if any, and interest on the Bonds when due.

All such investments will at all times be a part of the account or fund from where the money used to acquire such investments was deposited and all gains thereon will be credited to, and losses thereon will be charged against, such accounts or funds except as expressly provided to the contrary in the Indenture.

All investments will mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the owner on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

The principal of the investments and the interest, income, and profits received in respect thereof will be applied as follows:

(i) all interest, income, and profits received in respect of the investment of the amounts on deposit in a Governmental Unit's Account in any of the Funds established under the Indenture will (after deduction of any losses) be retained in the applicable Governmental Unit's Account from which the investment was derived (except as otherwise required with respect to the Agreement Reserve Fund and deposits to be made to the Rebate Fund); and

(ii) all interest, income, and profits received in respect of the investment of the amounts on deposit in the Revenue Fund, the Rebate Fund or the Bond Fund will (after deduction of any losses) be retained in such Fund; and

(iii) whenever any other transfer or payment is required to be made from any particular Fund or Account, such transfer or payment will be made from such combination of maturing principal, redemption, or repurchase prices, liquidation proceeds, and withdrawals of principal as the Trustee deems appropriate for such purpose, after taking into account such factors as future transfers or payments from the Fund or Account in question, the reinvestment opportunities for maturing principal, the current yield on any permitted investments to be redeemed, withdrawn, or sold, and any penalties, gains, or losses to be realized upon any such redemption, withdrawal, or sale.

The Trustee will not be accountable for any depreciation in the value of the Permitted Investments or any losses incurred upon any authorized disposition thereof.

Method and Frequency of Valuation. In computing the amount in any Fund or account, Permitted Investments will be valued at least annually at cost, including commissions and accrued interest but excluding interest accrued following acquisition.

Defeasance

When there has been paid, or provisions for payment have been made to or for the holders and Owners of the Bonds, the principal of and premium, if any, and interest due or to become due on the Bonds at the times and in the manner stipulated therein, and if there has been paid to the Trustee and any paying agents all sums of money due or to become due according to the provisions of the Indenture, then the estate and rights granted by the Indenture will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture and on demand of the NMFA will execute such documents to evidence such release as will be reasonably required by the NMFA and will turn over to the NMFA all balances held by the Trustee under the Indenture (other than amounts required for return to the Governmental Units as provided in the Indenture).

Any Bond will be deemed to be paid within the meaning of and for all purposes of the Indenture when (a) payment of the principal of and the applicable premium, if any, on such Bond, whether at maturity or prior redemption plus interest thereon to the due date thereof, either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent has irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment, and/or (2) noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond is deemed to be paid under the Indenture, as aforesaid, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or noncallable Governmental Obligations.

Notwithstanding anything in the Indenture to the contrary, all moneys so deposited with the Trustee (or other escrow agent) as provided in the defeasance provisions of the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amount and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys have been so deposited, will be deposited in the Revenue Fund as and when realized and collected for use and application as are other moneys deposited in that fund.

All moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the defeasance provisions of the Indenture for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and noncallable Governmental Obligations have been so set aside in trust.

Neither the obligations nor the moneys deposited with the Trustee (or other escrow agent) pursuant to the defeasance provisions of the Indenture will be withdrawn or used for any purpose other than, and will be segregated and held in trust for, the payment of the principal or redemption price of, and interest on, the Bonds or portions thereof

Whenever moneys or obligations are deposited with the Trustee (or other escrow agent) for the payment or redemption of any Bonds more than sixty (60) days prior to the date that such Bonds are to mature or be redeemed, the Trustee will mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held, to all Owners of Bonds for the payment of which such moneys or obligations are being held.

Notwithstanding anything in the Indenture to the contrary, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the defeasance provisions of the Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture will be made without the consent of the Registered Owner of each Bond affected thereby.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on any Series of Bonds is paid by a bond insurer with respect to such Series of Bonds pursuant to a municipal bond insurance policy, the Bonds of such Series will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the NMFA, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the NMFA to the Registered Owners and related Security Instrument Issues of such Series of Bonds will continue to exist and will run to the benefit of such bond insurer, and such bond insurer will be subrogated to the rights of such Registered Owners and related Security Instrument Issues of such Series of Bonds.

Default Provisions and Remedies of the Trustee and Owners

Events of Default Defined. Each of the following events is an "Event of Default" under the Indenture:

(a) if payment of any installment of interest on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable; or

(b) if payment of the principal of or the redemption premium, if any, on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any fund hereunder or otherwise; or

(c) if the NMFA is for any reason rendered incapable of fulfilling its obligations under the Indenture; or

(d) if an order or decree is entered, with the consent or acquiescence of the NMFA, appointing a receiver or custodian for any of the Revenues of the NMFA, or approving a petition filed against the NMFA seeking reorganization of the NMFA under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the NMFA will not be vacated or discharged or stayed on appeal within 30 days after the entry thereof, or

(e) if any proceeding is instituted, with the consent or acquiescence of the NMFA, for the purpose of effecting a composition between the NMFA and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Revenues; or

(f) if (i) the NMFA is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the NMFA, a receiver, Trustee or custodian of the NMFA or of the whole or any part of their property and any of the aforesaid adjudications, orders, judgments or decrees is not vacated or set aside or stayed within 60 days from the date of entry thereof; or

(g) if the NMFA files a petition or answer seeking reorganization, relief or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the NMFA or of the whole or any substantial part of the property of the NMFA, and such custody or control is not terminated within 30 days from the date of assumption of such custody or control; or

(i) if the NMFA defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture or any Supplemental Indenture on the part of the NMFA to be performed, other than as set forth above in this section and such Default continues for 30 days after written notice specifying such Event of Default and requiring the same to be remedied has been given to the NMFA by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Remedies of the Trustee. If an Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce the rights of the Owners of the Bonds under the Indenture, including enforcing any rights under the Agreements and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds against the NMFA and any related Governmental Unit, and compel the NMFA and any related Governmental Unit, to perform or carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Indenture or in any Agreement (including the appointment of a receiver); or

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) intervene in judicial proceedings that affect the Bonds, the Agreements, or the security therefor; or

(d) exercise any or all remedies permitted under the Agreements or Security Documents; or

(e) cause the NMFA or any related Governmental Unit to account as if it were the Trustee of an express trust for all of the Revenues or Agreement Pledged Revenues, pledged under the Indenture or pursuant to the Agreements and any Security Documents.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by the Indenture may be enforced and exercised from time to time and as often as may be deemed expedient by the Trustee or the Owners.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners, the NMFA, and the Governmental Units will be restored to the former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Owners under the Indenture is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be extended without exhausting and without regard to any other remedy conferred by any law.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and the performance of the other agreements and covenants required to be performed by it contained in the Agreements and Security Documents, the Governmental Units will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Loan Payments, by the Trustee, or with respect to the performance by the NMFA of any right or obligation required to be performed by it contained in the Indenture or for the performance by any other Governmental Unit of such other Governmental Unit's obligations under an Agreement or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, for the appointment of a receiver or Trustee or for any other remedy, at law or in equity, unless:

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Owners of not less than a majority of the aggregate principal amount of the Bonds Outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;

(c) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

No one or more Owners has any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Bond Owners. Notwithstanding the foregoing, the Owner of any Bond has the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms of the Bonds and the Indenture and the principal of such Bond at the stated maturity of the Bonds and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights will not be impaired without the consent of such Owner.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee, provided that such direction is not in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Owners of Bonds.

Application of Funds Upon Default. All moneys received by the Trustee or by any receiver pursuant to any right given or action taken under the default provisions of the Indenture or under the provisions of the related Agreements, will, after payment of the reasonable costs and fees of, and the reasonable expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and all moneys so deposited during the continuance of an Event of Default (other than moneys deposited to the Bond Fund for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default), together with all moneys in the Funds maintained by the Trustee or the NMFA under the Indenture, will be applied as follows:

(a) Unless the principal of all Bonds shall have become due and payable, all such moneys will be applied, as follows:

First: To the payment to the persons or entity entitled thereto of all installments of interest then due on the Bonds, in the order of maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons or entity entitled thereto without any discrimination or privilege;

Second: To the payment to the persons or entity entitled thereto of the unpaid principal of and any of the Bonds which have become due (other than Bonds called for prepayment for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons or entities entitled thereto without any discrimination or privilege; and

Third: To be held for the payment to the persons entitled thereto as the same become due of the principal of, the premium, if any, and interest on the Bonds which may thereafter become due at maturity and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds becomes due and payable all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with the interest on overdue principal, as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other certificates, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee may determine, having due regard for the amount of such moneys available for such application in the future. Whenever the Trustee applies such moneys it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such date and of the Special Record Date in accordance with the Indenture. The Trustee will not be required to make payment to the holder of any unpaid Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and will do so upon the written request of the Registered Owners of (a) a majority in aggregate principal amount of all the Bonds then outstanding in respect of which Default in the payment of principal and interest exist, or (b) a majority in aggregate principal amount of the Bonds then Outstanding in the case of any other Event of Default; provided, however, that there will not be waived (i) any Event of Default in the payment of the principal of any Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such Event of Default has occurred on overdue installments of interest and all arrears of payments of principal and premium, if any, when due and all expenses of the Trustee, in connection with such Event of Default has been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the NMFA, the Trustee and the Registered Owners will be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any right consequent thereon.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners. The NMFA and the Trustee may, without consent of, or notice to, any of the Owners enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To provide for the issuance of Additional Bonds in accordance with the provisions of the Indenture;

(b) To cure any ambiguity or formal defect or omission in the Indenture;

(c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;

(d) To subject to the Indenture additional revenues, properties or collateral;

(e) To evidence the appointment of a separate Trustee or paying agent or the succession of a new Trustee or paying agent under the Indenture;

(f) To make any other change which in the judgment of the Trustee is not materially adverse to the interests of the Trustee or any of the Owners;

(g) To make any amendments with the prior written confirmation from of the Rating Agency that such amendments will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; and

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred upon the NMFA in the Indenture or any Governmental Unit or to grant additional powers or rights to the Trustee.

Supplemental Indentures Requiring Consent of Owners. Exclusive of supplemental indentures covered by the foregoing section and subject to the following terms and provisions and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing in this section or in the foregoing section will permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond, or (ii) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indentures, or (v) permit the creation of any lien ranking prior to the lien of the Indenture on the Trust Estate or any part thereof, or (vi) deprive the Owner of any Bond then outstanding of the lien created by the Indenture on the Trust Estate without the prior consent of 100% of the holders of the Bonds affected by such supplemental indenture. The Trustee may, but is not obligated to, enter into any such supplemental indenture which adversely affects the Trustee's rights, duties or immunities under the Indenture or the Agreements.

If at any time the NMFA requests the Trustee to enter into any such supplemental indenture for any of the purposes of this section, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be given by registered or certified mail to the owner of each Bond shown by the list of Owners kept at the office of the Trustee. Such notices will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners. If, within one hundred twenty (120) days or such longer period as the holders of not less than a majority in aggregate principal amount of the Bonds outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Governmental Units from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided, the Indenture will be and be deemed to be modified and amended in accordance therewith.

Amendment of Agreements and Security Documents.

(a) The NMFA will have the right to amend an Agreement and any existing Security Documents with the Consent of the Trustee and the related Governmental Unit without Bond Owners' consent, for one or more of the following purposes:

(i) to add additional covenants of the NMFA or the related Governmental Unit, as applicable, or to surrender any right or power conferred upon the NMFA or the related Governmental Unit;

(ii) to make any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment;

(iii) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained therein or in any amendment thereto which may be defective or inconsistent with any other provision contained therein or in the Indenture or in any amendment thereto or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under any Agreement, or Security Documents which in the judgment of the Trustee do not adversely affect the interests of the Owners of Bonds; or

(iv) to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

(b) If the NMFA or a Governmental Unit propose to amend an Agreement or related Security Documents in a manner not contemplated by (a) above the Trustee will notify the Owners of the Bonds of the proposed amendment and may consent thereto with the consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding.

Fees, Charges and Expenses of the Trustee

Upon an Event of Default, but only upon an Event of Default, the Trustee will have a right of payment prior to payment on account of interest or principal of, or premium, if any, on any Bond for the Trustee's advances, fees, costs and expenses incurred.

Provisions Relating to the Series 2004B Bond Insurer

Consent of Ambac Assurance. Any provision of the Sixtieth Supplemental Indenture expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance thereunder without the prior written consent of Ambac Assurance. Ambac Assurance reserves the right to charge the NMFA a fee for any consent or amendment to the Indenture while the Series 2004B Bond Insurance Policy is outstanding.

Consent of Ambac Assurance in Addition to Owner Consent. Unless otherwise provided in this paragraph, Ambac Assurance's consent shall be required in addition to Owner consent, when required, for the following purposes: (i) execution and delivery of any supplemental indenture or any amendment, supplement or change to or modification of the Indenture; (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

Consent of Ambac Assurance in the Event of Insolvency. Any reorganization or liquidation plan with respect to the NMFA must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance shall have the right to vote on behalf of all Owners who hold Ambac Assurance-insured Series 2004B Bonds absent a default by Ambac Assurance under the Series 2004B Bond Insurance Policy.

Consent of Ambac Assurance Upon Default. Anything in the Sixtieth Supplemental Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined in the Indenture, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Sixtieth Supplemental Indenture.

Permitted Investments. The securities defined as Permitted Investments in the General Indenture may be used as Permitted Investments for all purposes under the Sixtieth Supplemental Indenture, other than Student Loan Marketing Association ("SLMA" or "Sallie Mae") senior debt obligations, which shall not be permitted.

Defeasance of Series 2004B Bonds. Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Series 2004B Bonds shall be paid by Ambac Assurance pursuant to the Series 2004B Bond Insurance Policy, the Series 2004B Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the NMFA, and the assignment and pledge of Revenues and all covenants, agreements and other obligations of the NMFA to the registered owners shall continue to exist and shall run to the benefit of Ambac Assurance, and Ambac Assurance shall be subrogated to the rights of such registered owners.

APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic information is furnished for information only. The Bonds do not constitute a general obligation of the State and are special limited obligations of NMFA payable solely from the Trust Estate. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004B Bonds do not constitute or give rise to a pecuniary liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004B BONDS."

Generally

The State was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 60% (mornings) to 30% (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from two inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per them and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the 12th fastest growing state, as the population increased 20.1% from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2%.

Most of this population growth is occurring in or near the large cities. There are three Metropolitan Statistical Areas (MSAs) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval and Valencia Counties; the Las Cruces MSA is in Doña Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Doña Ana.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table presents data on employment for the State by industry compiled by the State Department of Labor for the month of December 2003.

Employment by Industry Group*
December 2003

Industry	Employment
Agriculture and Goods-Producing Services	97,000
Natural Resources & Mining	14,500
Construction	47,000
Manufacturing	35,400
Wholesale Trade	22,000
Retail Trade	94,900
Transportation, Warehousing and Utilities	23,100
Information	15,900
Finance Activities	34,100
Professional and Business Services	88,900
Educational and Health Services	101,800
Leisure and Hospitality	80,000
Other Services	28,100
Government	200,300

* Employment is now categorized using the North American Industry Classification System (NAICS).

State of New Mexico
Wages and Salaries by NAICS Industry Sector, 2001-2002*
(thousands of dollars)

	New Mexico		United States	
	2002	2001	2002	2001
Farm Total	192,951	182,464	17,685,000	17,920,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	75,580	72,352	16,666,000	16,215,000
Mining	666,957	726,944	30,736,000	32,097,000
Utilities	216,337	229,847	40,099,000	39,566,000
Construction	1,431,508	1,482,156	272,627,000	271,845,000
Manufacturing	1,456,440	1,570,581	675,270,000	708,744,000
Wholesale Trade	861,505	835,454	280,848,000	284,348,000
Retail Trade	1,970,253	1,921,171	360,926,000	355,848,000
Transportation and Warehousing	662,802	650,276	162,181,000	165,135,000
Information	539,635	563,176	189,959,000	206,991,000
Finance and Insurance	866,615	818,885	369,350,000	373,025,000
Real Estate and Rental and Leasing	304,952	242,036	71,876,000	69,853,000
Professional and Technical Services	2,160,889	2,064,885	416,019,000	428,409,000
Management of Companies and Enterprises	235,023	239,155	117,596,000	118,350,000
Administrative and Waste Services	1,016,188	977,649	193,206,000	190,597,000
Educational Services	196,977	181,186	73,583,000	68,781,000
Health Care and Social Assistance	2,345,849	2,085,771	473,131,000	441,850,000
Arts, Entertainment and Recreation	133,628	128,377	51,507,000	49,419,000
Accommodation and Food Services	902,019	857,677	153,658,000	149,485,000
Other Services, Except Public Administration	701,297	641,277	156,621,000	146,152,000
Government and Government Enterprises	7,059,084	6,561,591	846,446,000	804,527,000
Non Farm Private Total	23,803,538	22,850,446	4,952,305,000	4,921,237,000
TOTAL	23,996,489	23,032,910	4,969,990,000	4,939,157,000

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

* Revised estimates were released April 27, 2004. These estimates incorporate the results of the comprehensive revision to the national income and product accounts released December 10, 2003. The revised estimates also reflect the incorporation of newly available and revised source data and improved estimating methodologies.

State of New Mexico
Civilian Labor Force, Employment and Unemployment in New Mexico and the United States, 1993-2003

	Civilian Labor Force (000)		Number Employed (000)		Unemployment Rate		
Year	N.M.	U.S.	N.M.	U.S.	N.M.	U.S.	NM as % of U.S. Rate
1993	761	129,200	703	120,259	7.7%	6.9%	112%
1994	782	131,056	733	123,060	6.3%	6.1%	103%
1995	797	132,304	747	124,900	6.3%	5.6%	113%
1996	807	133,943	742	126,708	8.1%	5.4%	150%
1997	826	136,297	774	129,558	6.2%	4.9%	127%
1998	845	137,673	793	131,463	6.2%	4.5%	138%
1999	824	139,368	778	133,488	5.6%	4.2%	133%
2000	854	142,583	812	136,891	5.0%	4.0%	123%
2001	860	143,734	819	136,933	4.8%	4.7%	102%
2002	875	144,863	828	136,485	5.4%	5.8%	93%
2003	897	146,510	840	137,736	6.4%	6.0%	107%

Source: New Mexico Department of Labor, Bureau of Labor Statistics, March 2004.

State of New Mexico
Per Capita Personal Income in New Mexico and the U.S., 1993-2003*

	Per Capita Income			Annual % Change	
Year	New Mexico	U.S.	NM as % of U.S.	New Mexico	U.S.
1993	16,959	21,346	79%	4.0%	2.3%
1994	17,631	22,172	80%	3.8%	3.7%
1995	18,426	23,076	80%	4.3%	3.9%
1996	19,029	24,175	79%	3.2%	4.5%
1997	19,698	25,334	78%	3.4%	4.6%
1998	20,656	26,883	77%	4.6%	5.8%
1999	21,042	27,939	75%	1.8%	3.8%
2000	22,134	29,847	74%	4.9%	6.4%
2001	23,928	30,527	78%	7.5%	2.2%
2002	24,823	30,906	80%	3.6%	1.2%
2003	25,541	31,632	81%	2.8%	2.3%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 2004.

* Preliminary stated personal income estimates for 2003 and revised stated personal income estimates for 1969-2002 were released April 27, 2004. These estimates incorporate the results of the comprehensive revision to the national income and product accounts released December 10, 2003. The revised estimates also reflect the incorporation of newly available and revised source data and improved estimating methodologies.

APPENDIX D

CERTAIN INFORMATION CONCERNING THE GOVERNMENTAL UNIT WITH REPAYMENT OBLIGATIONS IN EXCESS OF 5% OF REVENUES

Certain of the information relating to special assessment districts within the City of Albuquerque in this appendix has been provided by the City of Albuquerque. The NMFA and the Underwriters believe this information to be reliable, but can give no assurances that it is accurate or complete.

Generally

The City of Albuquerque (the "City") is the largest city in the State, accounting for roughly one-quarter of the State's population. Located at the center of the State in Bernalillo County at the intersection of two major interstate highways and served by both road and air, the City is the major trade, commercial and financial center of the State.

Security for Payments on NMFA Loans

Special Assessment District Loans

The City has created a number of special assessment districts within the City pursuant to statutory procedures and in compliance with City policies. The districts make needed infrastructure improvements, such as street, storm drainage, sanitary sewer, water, electric line and gas line improvements, and assess the costs thereof against the property benefiting from such improvements. The assessments have a lien on each parcel of land in the district as to the respective amounts relating to such parcel, which lien has a priority on the land equal to the lien thereon for general and *ad valorem* taxes and superior to all other liens, claims and taxes.

Pursuant to a Tax Exempt Loan Agreement in the amount of $11,568,376 and a Taxable Loan Agreement in the amount of $788,685, both entered into on July 27, 2000 between the City and the NMFA, the City has pledged to the NMFA the money collected from its Special Assessment District No. 226 ("District 226"). District 226 provides infrastructure improvements to 29 streets, all within Albuquerque City Council District No. 1 and comprised of portions of the Knolls at Paradise Hills (located north of Congress Avenue and east of Golf Course Road).

Pursuant to a Loan Agreement in the amount of $3,867,500 entered into on December 15, 2000 between the City and the NMFA, the City has pledged to the NMFA the money collected from its Special Assessment District No. 225 ("District 225"). District 225 provides infrastructure improvements to the Paradise Heights - Unit 1 Subdivision within the northwest quadrant of the City. District 225 is bounded on the north by the Blacks Arroyo Flood Control improvements; on the east by Seven Bar Subdivision Developments; on the south by McMahon Boulevard; and on the west by vacant land west of the lots fronting Dover and Buckboard Streets.

Pursuant to a Loan Agreement in the amount of $2,605,539 entered into on October 26, 2001 between the City and the NMFA, the City has pledged to the NMFA the money collected from its Special Assessment District No. 222 ("District 222"). District 222 provides infrastructure improvements to a rapidly developing area within the southwest quadrant of the City very near the western City limits. District 222 is bounded on the north by Central Avenue and Sunset Gardens Road; on the east by 98' Street, 86", 82', and Snow Vista Boulevard; on the south by San Ygnacio and Benavides Roads; and on the west by the Snow Vista Channel.

The City and the NMFA entered into a Loan Agreement in the amount of $1,314,322 on May 24, 2002 relating to the City Special Assessment District No. 216 ("District 216"). District 216 provides infrastructure improvements to an area generally between AT&SF Railroad lines on the west, Montaño Road on the north, AMAFCA North Diversion Channel on the east and an extension of Aztec Road on the south. Approximately one third of the property is outside the Albuquerque Municipal Limits. Bernalillo County provides street and drainage improvements to areas lying within the County and outside the City limits.

In the Spring of 2004, the City and the NMFA expect to enter into a Tax-Exempt Loan Agreement and a Taxable Loan Agreement relating to Special Assessment District 227 ("District 227"). District 227 provides infrastructure improvements to a rapidly developing area within the northwest quadrant of the City near the western City limits, known as the Volcano Cliffs subdivision. District 227 is comprised of portions of Volcano Cliffs Units 2, 5 and 24 (located on top of the escarpment bounded by 81st Street on the west and the National Park Service on the east).

Helicopter Loan

Pursuant to a Loan Agreement in the amount of $700,000 entered into on April 27, 2001 between the City and the NMFA, the City has pledged to the NMFA the money collected from a subordinate pledge of State-Shared Gross Receipts Tax revenues of the City for a police helicopter.

Drinking Water Loans

On May 10, 2002, the City and the NMFA entered into a $2,450,000 Drinking Water State Revolving Fund Loan Agreement and a $450,000 Public Project Revolving Fund Loan Agreement financing the construction of several chemical storage facilities at various sites as part of the City's program of converting from gas chlorination systems to onsite generation of sodium hypochlorite for water supply disinfection. The City pledged the net revenues of its water and sanitary sewer system to the repayment of these loans. Only the $450,000 PPRF Loan Agreement is part of the PPRF program.

On April 11, 2003, the City and the NMFA entered into a $3,600,000 Drinking Water State Revolving Fund Loan Agreement financing the construction of a pump station. The City pledged the net revenues of its water and sanitary sewer system to the repayment of this loan.

Stadium Loans

The City and the NMFA entered into a Taxable Surcharge Loan Agreement in the principal amount of $9,000,000 and a Taxable Stadium Lease Loan Agreement in the principal amount of $6,000,000, both to finance the renovation of the Albuquerque Sports Stadium. The Taxable Surcharge Loan Agreement is secured by the revenues to be collected from the City's Stadium Surcharge imposed pursuant to City Council Ordinance Enactment No. 60-2001, and equal to 10% of Stadium receipts as described therein. The Taxable Stadium Lease Loan Agreement is secured by all revenues derived by the City from the Albuquerque Baseball Club, LLC pursuant to the Stadium Lease Agreement dated October 2001. Both loans are also secured by a pledge of revenues from the State of New Mexico gross receipts tax derived pursuant to Section 7-9-4 NMSA 1978, and imposed on persons engaging in business in the State.

APPENDIX E

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

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[Form of Modrall, Sperling, Roehl, Harris & Sisk, P.A. Opinion]

June 9, 2004

New Mexico Finance Authority
409 St. Michael's Drive
Santa Fe, New Mexico 87505

Bank of Albuquerque, N.A.
Trust Division
201 Third Street, Suite 1400
Albuquerque, New Mexico 87102

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds, Series 2004B

We have acted as bond counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Public Project Revolving Fund Revenue Bonds, Series 2004B in the aggregate principal amount of $49,540,000, consisting of the $48,135,000 Series 2004B-1 and the $1,405,000 Series 2004B-2 (Taxable) (together, the "Series 2004B Bonds"). The Series 2004B Bonds are being issued for the purpose of providing funds (i) reimburse the NMFA for loans previously made to or for securities previously purchased from certain governmental units within the State of New Mexico (each a "Governmental Unit") to finance public projects for the use and benefit of the respective Governmental Units, and (ii) to pay the costs of issuance of the Series 2004B Bonds.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 *et seq.*, NMSA 1978, as amended and supplemented (the "Act"). The Series 2004B Bonds are authorized to be issued under and secured by a General Indenture of Trust and Pledge dated June 1, 1995, as heretofore amended and supplemented (the "General Indenture"), and as further amended and supplemented by a Sixtieth Supplemental Indenture of Trust dated as of June 1, 2004 (the "Sixtieth Supplemental Indenture", and collectively with the General Indenture, the "Indenture") between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The NMFA has previously issued other series of its Public Project Revolving Fund Revenue Bonds which are outstanding under the Indenture (the "Outstanding Parity Bonds", and sometimes together with the Series 2004B Bonds, the "Bonds"), and the Series 2004B Bonds are issued and secured with a lien on the Trust Estate on a parity with the lien of the Outstanding Parity Bonds on the Trust Estate.

We have reviewed the Indenture, certificates of the Attorney General of the State, as counsel to the NMFA, the NMFA, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceeding and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, it is our opinion that:

1. The NMFA is a public body politic and corporate, separate and apart from the State, duly organized and validly existing under the laws of the State, and has lawful authority to issue the Series 2004B Bonds.

2. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Trust Estate pledged under the Indenture to secure the

payment of and the principal of and interest on Bonds subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2004B Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Trust Estate and do not constitute a debt or liability of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2004B Bonds and the enforceability thereof and of the Indenture maybe subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Series 2004B Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2004B Bonds or any other offering material relating to the Series 2004B Bonds and we express no opinion relating thereto;

(d) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result; and

(e) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

Respectfully submitted,

[Form of Opinion of Ballard Spahr Andrews & Ingersoll, LLP]

June 9, 2004

New Mexico Finance Authority
409 St. Michael's Drive
Santa Fe, New Mexico 87505

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds - Series 2004B

We have acted as special tax counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Public Project Revolving Fund Revenue Bonds, Series 2004B-1 in the aggregate principal amount of $48,135,000 (the "Series 2004B-1 Bonds") and its Public Project Revolving Fund Revenue Bonds, Series 2004B-2 (Taxable) in the aggregate principal amount of $1,405,000 (the "Series 2004B-2 Bonds" and collectively with the Series 2004B-1 Bonds, the "Series 2004B Bonds"). The Series 2004B Bonds are being issued for the purpose of providing funds to (i) reimburse the NMFA for loans previously made to or for securities previously purchased from certain governmental units within the State of New Mexico (each a "Governmental Unit") to finance a public project for the use and benefit of the respective Governmental Unit, and (ii) pay costs of issuance.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004B-1 Bonds. The NMFA and each Governmental Unit whose loans are being financed with proceeds of the Series 2004B-1 Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004B-1 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004B-1 Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and each such Governmental Unit with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2004B-1 Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as follows:

1. Interest on the Series 2004B-1 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Interest on the Series 2004B-2 Bonds is <u>not</u> excludable from gross income of the owners thereof for federal income tax purposes.

3. Under the laws of the State of New Mexico as enacted and construed on the date hereof, interest on the Series 2004B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2004B Bonds; and

(b) although we have rendered an opinion that interest on the Series 2004B-1 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B Bonds.

Respectfully submitted,

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

DTC will act as securities depository for the Series 2004B Bonds. The Series 2004B Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Series 2004B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with or held for the account of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCQ, as well as by the New York Stock Exchange Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to DTC is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2004B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004B Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2004B Bonds, except in the event that use of the book-entry system for the Series 2004B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2004B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series 2004B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2004B Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2004B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2004B Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC, by Bank of Albuquerque, N.A. (the "Paying Agent" and the "Bond Registrar"). DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

So long as Cede & Co. or its registered assign is the registered owner of the Series 2004B Bonds, the NMFA and the Paying Agent will be entitled to treat Cede & Co., or its registered assign, as the absolute owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the NMFA or the Paying Agent and the NMFA and the Paying Agent will have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owners of the Series 2004B Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and neither the NMFA nor the Paying Agent has responsibility for distributing such notices to the Beneficial Owners.

The Paying Agent does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2004B Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2004B Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Series 2004B Bonds.

DTC may discontinue providing its services as securities depository with respect to the Series 2004B Bonds at any time by giving reasonable notice to the NMFA or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

APPENDIX G

SPECIMEN INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

SEAL

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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NEW ISSUE – BOOK-ENTRY ONLY

Ratings: *Moody's: Aaa*
S & P: AAA
Fitch: AAA
(See "RATINGS" herein)

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2004C Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds. See "TAX MATTERS" herein.

$168,890,000
NEW MEXICO FINANCE AUTHORITY
Public Project Revolving Fund
Revenue Bonds
Series 2004C

Dated: Delivery Date

Due: June 1, as shown on inside cover

The New Mexico Finance Authority's Public Project Revolving Fund Revenue Bonds, Series 2004C (the "Series 2004C Bonds"), are being issued as fully-registered bonds in denominations of $5,000 or any integral multiple thereof. The Depository Trust Company will act as securities depository for all of the Series 2004C Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2004C Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2004C Bonds will be made in book-entry form only, and beneficial owners of the Series 2004C Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Series 2004C Bonds.

The Series 2004C Bonds will be issued under and secured by an General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously amended and supplemented, and as amended and supplemented by a Sixty-fourth Supplemental Indenture of Trust, dated as of October 1, 2004 (collectively, the "Indenture"), between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as Trustee (the "Trustee"). Interest on the Series 2004C Bonds is payable on June 1 and December 1 of each year, commencing on June 1, 2005, as more fully described herein. Principal of the Series 2004C Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedule set forth on the inside front cover.

SEE MATURITY SCHEDULE
INSIDE FRONT COVER

The Series 2004C Bonds are subject to redemption prior to maturity as more fully described herein.

The Series 2004C Bonds are being issued by the NMFA to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities (the "2004C Governmental Units") for the purpose of financing public projects, (ii) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and (iii) finance the costs of issuance of the Series 2004C Bonds. The principal of, premium, if any, and interest on the Series 2004C Bonds are payable solely from and secured solely by the Trust Estate, which includes the NMFA Portion of the Governmental Gross Receipts Tax, certain amounts payable pursuant to agreements between the NMFA and 2004C Governmental Units heretofore and hereafter entering into agreements with the NMFA and certain moneys in funds and accounts described herein. Parity bonds have heretofore been issued and may hereafter be issued pursuant to the Indenture with a lien on the Trust Estate on a parity with the lien of the Series 2004C Bonds.

THE SERIES 2004C BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE NMFA PAYABLE, TOGETHER WITH ADDITIONAL BONDS HERETOFORE OR HEREAFTER ISSUED, SOLELY FROM AND SECURED SOLELY BY THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. THE SERIES 2004C BONDS DO NOT CONSTITUTE OR CREATE A GENERAL OBLIGATION OR OTHER INDEBTEDNESS OF THE STATE OF NEW MEXICO, THE NMFA OR ANY GOVERNMENTAL UNIT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE NMFA HAS NO TAXING POWERS. THE PRINCIPAL OF AND INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2004C BONDS DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY ON THE PART OF THE MEMBERS, DIRECTORS AND OFFICERS OF THE NMFA. NO BREACH OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF THE NMFA WILL IMPOSE A PECUNIARY LIABILITY OR A CHARGE UPON THE GENERAL CREDIT OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE.

Payment of the principal of and interest on the Series 2004C Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation concurrently with the delivery of the Series 2004C Bonds. See "BOND INSURANCE" herein.

Ambac

The NMFA has undertaken, for the benefit of owners of the Series 2004C Bonds, to provide certain annual and periodic disclosure as described herein under the caption "CONTINUING DISCLOSURE UNDERTAKING."

Certain legal matters will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2004C Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on by the Office of the Attorney General of the State of New Mexico and by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, for the NMFA, by Brownstein Hyatt & Farber, P.C. Disclosure Counsel to the NMFA, and by Andrews Kurth LLP, Houston, Texas, for the Underwriters. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2004C Bonds. It is expected that a single certificate for each maturity of the Series 2004C Bonds will be delivered to DTC or its agent on or about October 13, 2004. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2004C Bonds.

RBC Dain Rauscher

Banc of America Securities LLC **George K. Baum & Company**

Dated: September 23, 2004

$168,890,000
New Mexico Finance Authority
Public Project Revolving Fund Revenue Bonds,
Series 2004C

Maturity Schedule

Year (June 1)	Principal Amount	Interest Rate	Price	CUSIP Numbers
2005	$3,610,000	2.500%	100.582%	64711MYY7
2006	7,495,000	4.000%	103.622%	64711MYZ4
2007	2,060,000	2.250%	100.637%	64711MZA8
2007	4,185,000	5.000%	107.655%	64711MZU4
2008	2,000,000	2.500%	100.587%	64711MZB6
2008	3,370,000	5.000%	109.247%	64711MZV2
2009	1,360,000	2.750%	100.475%	64711MZC4
2009	5,670,000	5.000%	110.225%	64711MZW0
2010	2,000,000	3.250%	101.909%	64711MZD2
2010	8,245,000	5.000%	110.948%	64711MZX8
2011	2,000,000	3.250%	101.010%	64711MZE0
2011	8,930,000	5.000%	111.436%	64711MZY6
2012	1,000,000	3.500%	101.675%	64711MZF7
2012	11,390,000	5.000%	111.742%	64711MZZ3
2013	550,000	3.500%	100.665%	64711MZG5
2013	12,260,000	5.250%	113.656%	64711MA23
2014	13,460,000	5.250%	113.938%	64711MZH3
2015	2,000,000	4.000%	102.817%	64711MZJ9
2015	10,585,000	5.000%	110.877%	64711MA31
2016	12,670,000	5.250%	112.892%	64711MZK6
2017	7,150,000	5.250%	112.287%	64711MZL4
2018	8,170,000	5.250%	111.601%	64711MZM2
2019	7,920,000	5.250%	110.834%	64711MZN0
2020	7,080,000	5.250%	110.074%	64711MZP5
2021	7,395,000	5.000%	106.606%	64711MZQ3
2022	7,835,000	5.000%	105.954%	64711MZR1
2023	4,390,000	5.000%	105.226%	64711MZS9
2024	4,110,000	5.000%	104.584%	64711MZT7

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the Series 2004C Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, any Governmental Unit, the Series 2004C Bond Insurer, or others since the date hereof.

THE PRICES AT WHICH THE 2004C BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGE. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE 2004C BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004C BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2004C Bonds have not been registered under the Securities Act of 1933, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such Acts. The registration and qualification of the Series 2004C Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2004C Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the Series 2004C Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

NEW MEXICO FINANCE AUTHORITY
409 St. Michael's Drive
Santa Fe, New Mexico 87505
Telephone: (505) 984-1454
Telecopy: (505) 984-0002

Board of Directors

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Samuel O. Montoya, Secretary
Gary Bland
John Carey
Ron Curry
Randy Harris
Rick Homans
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Executive Director
William C. Sisneros

NMFA Counsel

Virtue Najjar & Brown PC
Santa Fe, New Mexico

Office of the Attorney General
State of New Mexico

Financial Advisor
Western Financial Group, LLC
Lake Oswego, Oregon

Bond Counsel
Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

Special Tax Counsel
Ballard Spahr Andrews & Ingersoll, LLP
Salt Lake City, Utah

Disclosure Counsel
Brownstein Hyatt & Farber, P.C.
Albuquerque, New Mexico

Trustee
Bank of Albuquerque, N.A.
Albuquerque, New Mexico

TABLE OF CONTENTS

OFFICIAL STATEMENT

$168,890,000
NEW MEXICO FINANCE AUTHORITY
PUBLIC PROJECT REVOLVING FUND
REVENUE BONDS
SERIES 2004C

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the offer and sale of the Public Project Revolving Fund Revenue Bonds, Series 2004C (the "Series 2004C Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2004C Bonds, together with additional bonds heretofore or hereafter issued on a parity therewith, are collectively referred to herein as the "Bonds." Capitalized terms used herein and not defined have the meanings specified in the General Indenture of Trust and Pledge, dated as of June 1, 1995, as heretofore supplemented and amended (the "General Indenture"), between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee (the "Trustee"), and as further supplemented and amended by the Sixty-fourth Supplemental Indenture of Trust, dated as of October 1, 2004 (the "Supplemental Indenture") between the NMFA and the Trustee, and are set forth under "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – CERTAIN DEFINITIONS" in Appendix B hereto. The General Indenture and the Supplemental Indenture are collectively referred to herein as the "Indenture." See "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B hereto.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2004C Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State of New Mexico (the "State") in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations. The NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor's Finance Council. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY" herein and the financial statements included as Appendix A hereto.

Purposes of the Series 2004C Bonds; The 2004C Governmental Units; Other Governmental Units

Proceeds from the sale of the Series 2004C Bonds will be used to reimburse the NMFA for loans made by the NMFA from its public project revolving fund to certain Governmental Units (the "2004C Governmental Units") identified under the caption "THE PLAN OF FINANCING – Governmental Units and 2004C Projects" herein and to fund on the date of closing of the Series 2004C Bonds with proceeds of the Series 2004C Bonds a loan to the Albuquerque Bernalillo County Water Authority (collectively, the "2004C Loans"). The 2004C Loans provided funds to the 2004C Governmental Units to pay for all or a portion of the costs of certain projects (the "2004C Projects"), as more fully described herein. For certain information concerning the 2004C Governmental Units and the respective 2004C Projects, see "THE PLAN OF FINANCING – Governmental Units and 2004C Projects" herein. The 2004C Governmental Units have each executed an individual loan agreement or issued securities for each project (the "2004C Loan Agreements"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS." The 2004C Loan Agreements, together with loan agreements, grant agreements and securities relating to parity bonds heretofore or hereafter issued, are referred to herein as the "Agreements." The 2004C Governmental Units together with other governmental units heretofore or hereafter entering into or issuing Agreements are herein collectively referred to as "Governmental Units." Proceeds also will be used to provide funding for the payment of costs of issuance of the Series 2004C Bonds.

Parity Bonds

Bonds with a lien on the Trust Estate on a parity with the lien thereon of the Series 2004C Bonds have been issued previously and may be issued in the future to provide loans and grants to and to purchase securities from certain other Governmental Units. For a description of the parity bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS - Outstanding Parity Bonds."

Authority for Issuance

The Series 2004C Bonds are being issued under the authority of and pursuant to the laws of the State, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.*, NMSA 1978, as amended (the "Act"), and the Indenture. For a description of the Public Project Revolving Fund Program, see "NEW MEXICO FINANCE AUTHORITY – Public Project Revolving Fund Program" herein.

Terms of the Series 2004C Bonds

Payments

The Series 2004C Bonds will be dated the Delivery Date. Interest on the Series 2004C Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2005. The Series 2004C Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity) and will bear the interest rates shown on the inside front cover hereof.

Denominations

The Series 2004C Bonds are issuable in denominations of $5,000 or integral multiples thereof.

Book-Entry System

Individual purchases will be made in book-entry form only, and purchasers of the Series 2004C Bonds will not receive physical delivery of bond certificates except as more fully described herein. Payments of principal of and interest on the Series 2004C Bonds will be made directly to The Depository Trust Company ("DTC") or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Upon receipt of such payments, DTC is to remit such payments to the DTC Participants (as hereinafter defined) for subsequent disbursement to the beneficial owners of the Series 2004C Bonds, all as more fully described in "BOOK-ENTRY ONLY SYSTEM" in Appendix F. In reading this Official Statement, it should be understood that while the Series 2004C Bonds are in book-entry only form, references in other sections of this Official Statement to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the Series 2004C Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system as described more fully herein, and (ii) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the Series 2004C Bonds

The Series 2004C Bonds are subject to redemption prior to maturity. See "THE SERIES 2004C BONDS – Redemption of the Series 2004C Bonds."

Security and Sources of Payment for the Series 2004C Bonds

Special Limited Obligations

The Series 2004C Bonds are special limited obligations of the NMFA payable solely from the Trust Estate, which includes the Revenues described below and certain funds and accounts created and maintained pursuant to the Indenture. The Series 2004C Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004C Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Special Limited Obligations."

Revenues

Revenues are defined by the General Indenture to mean: (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned on and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund). All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement; provided, however, that all earnings received on each Governmental Unit's Account will be allocated solely to the benefit of such Governmental Unit. For a description of the Agreements, the NMFA Portion of the Governmental Gross Receipts Tax and the Additional Pledged Loans, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Revenues." For a description of the funds and accounts created by the Indenture see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Flow of Funds." See also "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B.

Additional Bonds

The NMFA maintains an ongoing program to provide loans and to purchase securities from Governmental Units and expects to finance those activities with the issuance of Additional Bonds on a parity with the Series 2004C Bonds. The timing, amount and other details of such parity bonds are not known as of the date of this Official Statement.

The NMFA must meet certain requirements prior to the issuance of Additional Bonds or other obligations with a lien on the Trust Estate on a parity with the lien of the Series 2004C Bonds. For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Additional Bonds." For a discussion of the outstanding parity bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Outstanding Parity Bonds." The NMFA may not issue bonds or other indebtedness payable with a priority senior to the lien on the Trust Estate of the Series 2004C Bonds without the written consent of 100% of the owners of Outstanding Series 2004C Bonds. The NMFA has issued, and may in the future issue, indebtedness having a lien on the Trust Estate subordinate to that of the Series 2004C Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Outstanding Subordinate Debt."

Bond Insurance

Payment of scheduled principal of and interest on the Series 2004C Bonds will be insured pursuant to a financial guaranty insurance policy (the "Series 2004C Bond Insurance Policy") to be issued by Ambac Assurance Corporation (the "Series 2004C Bond Insurer") concurrently with the delivery of the Series 2004C Bonds. See "BOND INSURANCE" herein.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Bond Owners that, so long as the Series 2004C Bonds remain outstanding, the NMFA will provide certain annual financial information and operating data and audited financial statements with respect to the NMFA and any Governmental Unit whose repayment obligations to the NMFA will represent more than five percent of the estimated annual Revenues for the first full year in which the Series 2004C Bonds are outstanding (the "5% test") to each nationally recognized municipal securities information repository ("NRMSIR") and notice of certain material events to the Municipal Securities Rulemaking Board (the "MSRB") in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in "CONTINUING DISCLOSURE UNDERTAKING" herein.

Continuing disclosure undertakings previously entered into by the NMFA called for it to file certain annual financial information and operating data and audited financial statements for the NMFA and any Governmental Unit meeting the 5% test with each NRMSIR no later than 270 days after the end of each fiscal year. In September 2004, the NMFA discovered that for fiscal years 2001 and 2002 only the audited financial statements of the NMFA were filed with the NRMSIRs. For fiscal year 2003 annual financial information and operating data and audited financial statements for the NMFA were filed with each NRMSIR, but the audited financial statements for the Governmental Units meeting the 5% test were not filed. On October 1, 2004, NMFA notified the MSRB of its failure to file the annual financial information and operating data and the audited financial statements for the Governmental Units meeting the 5% test. The NMFA expects to file annual financial information and operating data and the audited financial statements for the City of Albuquerque, New Mexico and the Energy, Minerals and Natural Resources Department of the State of New Mexico on October 4, 2004. NMFA believes that, as of October 4, 2004, it will be in compliance with its continuing disclosure undertakings.

Tax Considerations

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

In the opinion of such Special Tax Counsel to the NMFA, under existing laws of the State of New Mexico as currently enacted and construed, interest on the Series 2004C Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds.

The form of opinion to be delivered by Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, is included in Appendix E hereto. For a discussion of such opinion and certain other tax consequences incident to the ownership of the Series 2004C Bonds, see "TAX MATTERS" herein.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2004C Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion included in Appendix E hereto and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under "TAX MATTERS" and also included in Appendix E hereto. Certain legal matters relating to the Series 2004C Bonds will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Houston, Texas. Certain legal matters will be passed upon for the NMFA by the Office of the Attorney General for the State of New Mexico and by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA. See "LEGAL MATTERS" herein. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2004C Bonds. RBC Dain Rauscher Inc., Albuquerque, New Mexico, has acted as managing underwriter in connection with the issuance of the Series 2004C Bonds. See "EXPERTS" herein. RBC Dain Rauscher Inc. also has acted as financial advisor to the Albuquerque Bernalillo County Water Utility Authority. Brownstein Hyatt & Farber, P.C. also has acted as loan counsel to the Albuquerque Bernalillo County Water Utility Authority and Modrall, Sperling, Roehl, Harris & Sisk, P.A., may, from time to time, act as disclosure counsel to the Albuquerque Bernalillo County Water Utility Authority.

The NMFA's financial statements for the Fiscal Year ended June 30, 2003, included in Appendix A hereto, have been audited by Neff + Ricci, LLP, certified public accountants, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS" herein.

Offering and Delivery of the Series 2004C Bonds

The Series 2004C Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate for each maturity of the Series 2004C Bonds will be delivered to DTC or its agent on or about October 13, 2004.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2004C Bonds.

THE SERIES 2004C BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2004C Bonds. Other information describing the Series 2004C Bonds appears elsewhere in this Official Statement. This summary and such other information should be read together and are qualified in their entirety by reference to the Indenture and the Series 2004C Bonds. For a description of certain provisions of the Indenture, see "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B. Copies of the approved forms of the Indenture are available as provided in "ADDITIONAL INFORMATION" herein.

The Series 2004C Bonds are being issued pursuant to the Act, the Indenture, and a bond authorizing resolution adopted by the NMFA on June 30, 2004, and supplemented by a sale resolution adopted on September 23, 2004. The Series 2004C Bonds are being issued to reimburse the NMFA for loans made to the 2004C Governmental Units and to fund the loan to the Albuquerque Bernalillo County Water Utility Authority as more particularly described herein as part of the NMFA's Public Project Revolving Fund Program. Proceeds of the Series 2004C Bonds also will be used to provide funding for the payment of costs of issuance of the Series 2004C Bonds. For a description of such program, see "NEW MEXICO FINANCE AUTHORITY – Public Project Revolving Fund Program" herein. See also "THE PLAN OF FINANCING – Sources and Uses of Funds."

Description of the Series 2004C Bonds

The Series 2004C Bonds will be dated as of the Delivery Date. Interest on the Series 2004C Bonds will accrue from the Delivery Date of the Series 2004C Bonds at the rates set forth on the inside front cover page of this Official Statement (calculated on the basis of the 360-day year consisting of twelve 30-day months), and is payable on June 1 and December 1 of each year, commencing June 1, 2005. The Series 2004C Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front cover (unless redeemed prior to maturity). The Series 2004C Bonds are issuable in denominations of $5,000 or integral multiples thereof (the "Authorized Denominations").

Book-Entry Only System

The Depository Trust Company will act as securities depository for all of the Series 2004C Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount and maturity of each series of the Series 2004C Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2004C Bonds will be made in book-entry form only, and beneficial owners of the Series 2004C Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payment to

DTC participants for subsequent disbursement to the beneficial owners of the Series 2004C Bonds. For a more complete description of the book-entry only system, see "BOOK-ENTRY ONLY SYSTEM" in Appendix F.

Redemption of the Series 2004C Bonds

Generally

The Series 2004C Bonds are subject to optional redemption, mandatory sinking fund redemption and mandatory redemption prior to maturity as set forth below.

Optional Redemption by the NMFA

The Series 2004C Bonds maturing on or after June 1, 2015, are subject to optional redemption at any time on and after June 1, 2014, in whole or in part, in such order of maturity as may be selected by the NMFA and by lot within each maturity (if in part, in integral multiples of $5,000), at the option of the NMFA, upon notice as provided in the Indenture and at the redemption price of 100% of the principal amount of the Series 2004C Bonds to be redeemed, plus accrued interest to the redemption date, but without premium.

Notice of Redemption

In the event any of the Series 2004C Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Registered Owners of Series 2004C Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days, but not more than 60 days, prior to the date fixed for redemption.

In addition, further notice of any redemption of Series 2004C Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Registered Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Series 2004C Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the Series 2004C Bonds. Failure to give all or any portion of such further notice will not in any manner defeat the effectiveness of a call for redemption.

If at the time of mailing of any notice of redemption there are not on deposit with the Trustee moneys sufficient to redeem all the Series 2004C Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Registered Owners of Series 2004C Bonds or portions thereof redeemed but who failed to deliver Series 2004C Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Series 2004C Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Registered Owners will not affect the validity of the proceedings for the redemption of the Series 2004C Bonds.

Partially Redeemed Series 2004C Bonds

In case any Series 2004C Bond is redeemed in part, upon the presentation of such Series 2004C Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the NMFA, a Series 2004C Bond or Series 2004C Bonds of the same series, interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Series 2004C Bond. A portion of any Series 2004C Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or an integral multiple thereof and, in selecting portions of such Series 2004C Bonds for redemption, the Trustee will treat each such Series 2004C Bond as representing that number of Series 2004C Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Series 2004C Bonds by $5,000.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS

Special Limited Obligations

The Series 2004C Bonds are special limited obligations of the NMFA payable solely from the Revenues, proceeds of the Series 2004C Bonds (until used as provided in the Indenture) and other moneys held in certain funds and accounts held by the Trustee under the Indenture (the "Trust Estate"). The Series 2004C Bonds do not constitute nor create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004C Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Revenues

Generally

Revenues include (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund). All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Loan Agreement, provided, however, that all earnings received on the Governmental Units' Accounts will be allocated solely to the benefit of such Governmental Unit. As discussed under "Flow of Funds" below, revenues received from a Governmental Unit by the Trustee on behalf of the NMFA pursuant to a Loan Agreement are deposited in a separate account of the Debt Service Fund established for that Governmental Unit and are periodically transferred by the Trustee to the Bond Fund and used to make debt service payments on the Bonds. All revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax and from any Additional Pledged Loans are transferred to the Trustee and deposited in the Revenue Fund. Moneys in the Revenue Fund are used each Bond Fund Year to pay debt service on the Bonds to the extent that moneys in the several accounts of the Debt Service Fund are insufficient and to pay debt service on the portions of the Bonds used to finance grants. At the end of each Bond Fund Year moneys in the Revenue Fund in excess of the requirements for such moneys under the Indenture are transferred to the NMFA and deposited in the Subordinate Lien PPRF Revenue Fund. These monies are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Revenues are deposited, see "Flow of Funds" below under this caption, and "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts" in Appendix B hereto. For a more complete description of the Subordinate Lien PPRF Revenue Fund see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Outstanding Subordinate Debt" herein.

The Agreements and the Agreement Pledged Revenues

Generally. The Agreements consist of Loan Agreements and Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of their respective projects by the NMFA. (Under the Indenture "Agreements" also includes Grant Agreements, however the Grant Agreements contain no repayment provisions.) Under each Loan Agreement or issue of Securities, the respective Governmental Unit pledges to the NMFA for payment of all amounts due under their respective Agreements (i) revenues of specific enterprise systems or revenues attributable to certain taxes (such pledged revenues, the "Agreement Pledged Revenues") and (ii) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to promptly pay principal of and interest on its loan from its Agreement Pledged Revenues and to continue such payments until its loan is paid in full.

Agreement Reserve Fund. Pursuant to the Indenture, an Agreement Reserve Fund has been created which will be held by the Trustee. Within such fund currently are accounts relating to certain Governmental Units having a repayment obligation to the NMFA pursuant to a Loan Agreement or Securities for which the NMFA determined to require such accounts. Amounts in such a Governmental Unit's account of the Agreement Reserve Fund will be withdrawn by the Trustee and deposited into that Governmental Unit's account of the Debt Service Fund to the extent of any shortfall in payments by such Governmental Unit under its Loan Agreement or Securities and any associated Additional Pledged Loans. **Amounts in a Governmental Unit's account of the Agreement Reserve Fund will not be used to cover shortfalls in payments of other Governmental Units and will not otherwise be available to defray deficiencies in the Bond Fund.** See "PLAN OF FINANCING – Sources and Uses of Funds" herein and "Flow of Funds" below under this caption.

Agreements with Governmental Units. Each Governmental Unit which has entered into a Loan Agreement (or has issued Securities) has pledged specific Agreement Pledged Revenues to the repayment of its Loan. Financial information and operating data for the Albuquerque Bernalillo County Water Utility Authority, the only Governmental Unit whose Loan repayment obligation constitutes more than five percent of the estimated annual Revenues in the first full year in which the Series 2004C Bonds are Outstanding, is set forth in Appendix D. Financial information and operating are not set forth for any other Governmental Unit.

No Obligation of Governmental Units to Cover Shortfalls. A Governmental Unit is not required to make up any Loan Payment not paid in full by another Governmental Unit or to make up any insufficiency in the NMFA Portion of the Governmental Gross Receipts Tax.

The Governmental Gross Receipts Tax

Generally. Pursuant to Section 7-1-6.38, NMSA 1978, the NMFA is allocated 75% of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. For purposes of this Official Statement, the 75% net receipts which is allocated to the

NMFA is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Indenture, the NMFA Portion of the Governmental Gross Receipts Tax will be paid when received by NMFA to the Trustee and will be accounted for and maintained by the Trustee in the Revenue Fund created under the Indenture within the Public Project Revolving Fund and are available (i) to pay debt service on the Bonds to the extent Loan Payments paid by the Governmental Units pursuant to the Agreements are not sufficient to pay debt service when due and (ii) to pay debt service on the portions of the Bonds issued to fund Grants. See "Flow of Funds" under this caption for additional information on the use of moneys in the Revenue Fund. Under the Indenture, payments attributable to Additional Pledged Loans, if any, will be paid by the NMFA to the Trustee prior to each Interest Payment Date. See "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Exhibit B for certain information concerning the Revenue Fund and allocation of amounts therein to payment of principal and interest on the Bonds.

Pursuant to Section 7-9-4.3, NMSA 1978, the governmental gross receipts tax is imposed on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State of New Mexico, except school districts and certain health care entities.

Governmental gross receipts are defined in Section 7-9-3.2, NMSA 1978, as all receipts of the State or any agency, institution, instrumentality or public subdivision thereof except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services, from: (a) the sale of tangible personal property other than water from facilities open to the general public; (b) the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public; (c) refuse collection, refuse disposal or both; (d) sewage services; (e) the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State; and (f) the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tie-down aircraft or dock boats.

The definition of governmental gross receipts includes receipts from the sale of tangible personal property handled on consignment when sold from facilities open to the general public, but excludes cash discounts taken and allowed, governmental gross receipts tax payable on transactions reportable for the period and any type of time-price differential.

The governmental gross receipts tax was enacted into law and first imposed in 1991. It is imposed at a rate of five percent on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State, except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services. In addition, the governmental gross receipts tax is not imposed on: (i) receipts from transactions involving tangible personal property or services on which the gross receipts tax, compensating tax, motor vehicle excise tax, gasoline tax, special fuel tax, special fuel excise tax, oil and gas emergency school tax, resources tax, processors tax, service tax, or the excise tax imposed under Section 66-12-6.1, NMSA 1978, is imposed; (ii) receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision or on receipts from operation of a cable television system owned or operated by a municipality, because those receipts are subject to the regular gross receipts tax under Section 7-9-13, NMSA 1978; (iii) receipts from selling livestock and receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, unprocessed agricultural products, hides or pelts; or (iv) receipts from selling tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products, services, or activities sold at, related to or occurring at a minor league baseball stadium on which a stadium surcharge is imposed pursuant to the Minor League Baseball Stadium Funding Act.

Deductions from the governmental gross receipts tax include: (i) certain receipts from selling tangible personal property to the United States or the State or any governmental unit or subdivision, agency, department or instrumentality thereof; (ii) receipts from selling tangible personal property to an Indian tribe, nation or pueblo or any governmental subdivision, agency, department or instrumentality thereof for use on Indian reservations or pueblo grants; (iii) certain receipts from the sale of tangible personal property to a person engaged in the business of manufacturing if the sale is made to a person who delivers a non-taxable transaction certificate to the seller; (iv) receipts from transactions in interstate commerce; (v) receipts from selling tangible personal property, licenses or a service for resale if the sale is made to a person who delivers a nontaxable transaction certificate to the seller; (vi) certain receipts from selling tangible personal property to entities exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended or renumbered, if the sale is made to an organization that delivers a nontaxable transaction certificate to the seller; (vii) refunds and allowances made to buyers or amounts written off the books as an uncollectible debt by a person reporting governmental gross receipts tax on an accrual basis; (viii) certain receipts from selling prosthetic devices if the sale is made to a person who is licensed to practice medicine, osteopathic medicine, dentistry, podiatry, optometry, chiropractic or professional nursing and who delivers a nontaxable transaction certificate to the seller; and (ix) receipts from the sale of prescription drugs.

Collection and Distribution Information. Governmental agencies are treated as taxpayers under the provisions of the Tax Administration Act, Section 7-1-1 *et seq.*, NMSA 1978, and are responsible for paying the governmental gross receipts tax to the New Mexico Taxation and Revenue Department in accordance with the State's Tax Administration Act. Collections are first deposited into a tax administration suspense fund for the purpose of making disbursements for refunds, among other things. On the last day of each month, the balance in the suspense fund is identified by tax source and distributed to the appropriate municipalities or state agencies, including the NMFA. Collection of governmental gross receipts tax is administered by the New Mexico Taxation and Revenue Department. Governmental gross receipts taxes are to be paid on or before the 25th day of the month following the month in which the taxable event occurs.

Presented below is information from the New Mexico Taxation and Revenue Department concerning collections of the governmental gross receipts tax for the fiscal years 1999-2000 through 2003-2004. There can be no assurance that governmental gross receipts tax collections will continue to grow at historical rates or otherwise.

Governmental Gross Receipts Tax Collections
Fiscal Years 1999-2000 Through 2003-2004

	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002	Fiscal Year 2002-2003	Fiscal Year 2003-2004[(2)]
Total Net Receipts	$19,372,893	$20,994,555	$20,616,433	$22,908,393	$24,491,159
NMFA Portion of the Governmental Gross Receipts Tax	$14,529,670	$15,745,916	$15,462,325[(1)]	$17,181,295	$18,368,369

(1) The NMFA believes that the decrease in governmental gross receipts tax collections in fiscal year 2001-2002 is attributable to operational changes at the University of New Mexico.

(2) Unaudited.

Presented below is information concerning the top nine payers for fiscal years 2001-2002 through 2003-2004. Such information is not publicly available from the State and has instead been obtained from each individual entity, and the NMFA does not guaranty the accuracy of any such information.

Top Payers of
Governmental Gross Receipts Taxes
Fiscal Years 2001-2002 Through 2003-2004

	Fiscal Year 2001-2002		Fiscal Year 2002-2003		Fiscal Year 2003-2004	
Entity	Amount Paid	% of Total GGRT of All Entities in NM	Amount Paid	% of Total GGRT of All Entities in NM	Amount Paid[1]	% of Total GGRT of All Entities in NM
City of Albuquerque[2]	$7,349,606	33.60%	$7,615,404	33.24%	$5,517,564	22.53%
Albuquerque Bernalillo County Water Utility Authority[2]					2,655,969	10.84%
City of Santa Fe	1,716,437	7.85%	2,020,181	8.82%	2,335,710	9.54%
City of Las Cruces	936,567	4.28%	993,204	4.34%	1,172,463	4.79%
University of New Mexico	1,128,122	5.16%	1,055,148	4.61%	1,111,129	4.54%
City of Rio Rancho	682,333	3.12%	718,317	3.14%	807,306	3.30%
City of Farmington	691,010	3.16%	742,103	3.24%	668,079	2.73%
City of Roswell	534,160	2.44%	517,194	2.26%	551,411	2.25%
County of Los Alamos	389,243	1.78%	439,554	1.92%	478,477	1.95%
City of Gallup	334,436	1.53%	323,236	1.41%	347,556	1.42%
Total	**$13,761,914**	**62.91%**	**$14,424,343**	**62.97%**	**$15,645,664**	**63.88%**

(1) Unaudited.

(2) Prior to December 2003, the Governmental Gross Receipts Taxes paid by the Albuquerque Bernalillo County Water Utility Authority were paid by the City of Albuquerque.

Sources: Listed Governmental Units.

Additional Pledged Loans

The NMFA may make loans from or purchase securities with available funds in the Public Project Revolving Fund. At its option, the NMFA may designate such loans or securities as Additional Pledged Loans (as hereinafter defined), and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds. See "Flow of Funds" below under this caption.

Flow of Funds

The Indenture creates a Revenue Fund, a Bond Fund, a Debt Service Fund with separate accounts for each Governmental Unit receiving a Loan, and an Agreement Reserve Fund with a separate account, if required, for each Governmental Unit receiving a Loan that has a reserve requirement. The repayment obligations of those Governmental Units receiving Additional Pledged Loans who have also entered into Loan Agreements with or issued Securities purchased by the NMFA, payable from the same revenue source, are on parity with amounts due with respect to such Loan Agreements or Securities.

Flow of Funds Under General Indenture

All Loan Payments and other amounts paid by Governmental Units pursuant to the Loan Agreements and Securities are to be paid directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less an administrative fee of up to 0.25% retained by the NMFA) prior to each Interest Payment Date, and the Trustee is directed to deposit all such payments immediately upon receipt thereof, as follows:

First: to the related Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan.

Second: to the related Account, if any, in the Agreement Reserve Fund to the extent necessary to cause the balance in said Account to equal the Agreement Reserve Requirement, if any, of such Account.

On the fifth day preceding a Loan Payment Date (or, if such fifth day is not a Business Day, on the Business Day next preceding such fifth day), if the amount on deposit in any Governmental Unit's Account of the Debt Service Fund is insufficient for payments coming due under the related Loan Agreement or Securities on the next Loan Payment Date, the Trustee is directed to transfer from the related Agreement Reserve Account, if any, to that Governmental Unit's Account of the Debt Service Fund, an amount sufficient, together with amounts in such Debt Service Account, to pay the Principal Component and the Interest Component due under such Loan Agreement or Securities on such Loan Payment Date.

On each Interest Payment Date for the Bonds, the Trustee is directed to transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay the interest on the related Bonds becoming due on such Interest Payment Date and to pay the principal of each related Bond due at maturity or by prior redemption, to the extent amounts are on deposit therein for such purpose. At least once each year, the Trustee must determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) in certain cases, to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or to credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement. In certain cases, any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the related Bonds (including the Series 2004C Bonds) will be deposited into the Revenue Fund.

Revenue Fund

During each Bond Fund Year, all Revenues constituting receipts from the NMFA Portion of the Governmental Gross Receipts Tax and principal and interest payments from Additional Pledged Loans are required to be paid by the NMFA to the Trustee prior to each Interest Payment Date and shall be accounted for and maintained by the Trustee in the Revenue Fund. On each Interest Payment Date, the Trustee (except as otherwise provided in a Supplemental Indenture) is directed to transfer from the Revenue Fund (including any amounts in the separate account described in the next paragraph) to the Bond Fund (i) an amount equal to the principal and interest due on such Interest Payment Date on the portion of any Bonds, the proceeds of which were used to make Grants and (ii) if the amounts on deposit in the Bond Fund are insufficient for payments coming due with respect to the Bonds on such Interest

Payment Date, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal and interest due on the Bonds on such Interest Payment Date.

At the conclusion of each Bond Fund Year, the Trustee is directed to retain in the Revenue Fund, in a separate account to be created therein (to the extent of amounts remaining in the Revenue Fund), the following:

(a) an amount equal to any deficiency in any account in the Agreement Reserve Fund;

(b) with respect to Agreements for which (A) no Agreement Reserve Account was created in the Agreement Reserve Fund and (B) a default in the payment of principal or interest under such Agreement has occurred and is continuing, an amount equal to the least of (x) 10% of the proceeds of such Agreement, (y) maximum annual debt service on such Agreement and (z) 1.25 times average annual debt service on such Agreement; and

(c) with respect to Bonds issued to finance Grants and for which no other debt service reserve fund has been created, an amount equal to the least of (A) five percent of the proceeds of the Bonds issued to finance such Grant, (B) one-half of maximum annual debt service on the Bonds issued to finance such Grants and (C) .625 times average annual debt service on the Bonds issued to finance such Grant.

Pursuant to the Indenture, the NMFA is not required to contribute any amounts to fund the retention described in the preceding paragraph other than from amounts on deposit in the Revenue Fund at the end of each Bond Fund Year, and no default under the Indenture occurs solely by reason of any insufficiency of funds remaining in the Revenue Fund to fund such retention.

After making the foregoing deposits, at the conclusion of each Bond Fund Year, and after making the payments required by the Indenture during such Bond Fund Year, the Trustee is directed to transfer the balance on deposit in the Revenue Fund to the NMFA for deposit into the Subordinate Lien Revenue Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BOND—Outstanding Subordinate Debt." After the monies have been used for the purposes specified in the Subordinated General Indenture (hereinafter defined), the NMFA may use any remaining monies for: (i) Public Project Revolving Fund purposes; (ii) redemption of Bonds prior to maturity by depositing the same into the Bond Fund; (iii) refinancing, refunding, purchasing or advance refunding of any Bonds; or (iv) any other lawful purpose.

The balance so transferred to the Subordinate Lien Revenue Fund is no longer pledged to the payment of debt service on the Bonds.

NMFA Covenants Concerning Agreement Prepayments

Certain previously-issued series of Additional Bonds are subject to mandatory redemption if a Governmental Unit whose Project was financed by such series of Additional Bonds makes a Prepayment in whole or in part under its Loan Agreement. The Series 2004B Bonds and the Series 2004C Bonds are not subject to mandatory redemption under such circumstances. Instead, the Indenture requires that, for the purpose of matching, to the extent practicable, (i) the revenues received from Loan Payments received pursuant to Loans financed with proceeds of the Series 2004B Bonds and the Series 2004C Bonds with debt service payable on the Series 2004B Bonds and the Series 2004C Bonds, and (ii) the overall debt service requirements on the Outstanding Series of Bonds and the Series 2004B Bonds and the Series 2004C Bonds with revenues received from Loan Payments on all outstanding Loans, the NMFA must, within 365 days following the receipt of a Prepayment, in part or in full, of a Loan financed with proceeds of the Series 2004B Bonds and the Series 2004C Bonds, take separately or in combination any one or more the following actions:

(a) The NMFA may, to the extent practicable, call for optional redemption prior to maturity Bonds which are subject to redemption, selecting Bonds for optional redemption in an amount and with debt service requirements that approximate the debt service requirements of the Loan for which the Prepayment was received. The NMFA must provide evidence satisfactory to the Trustee and the Rating Agencies that, in taking the actions described in this paragraph, the interests of Owners of Bonds will not be adversely affected.

(b) The NMFA may, to the extent practicable, originate one or more new Loans (i) in an aggregate principal amount equal to or greater than the amount of the Prepayment, and (ii) with debt service requirements and final maturity dates approximating the debt service requirements and final maturity date of the Loan pursuant to which the Prepayment was made. The NMFA must provide evidence satisfactory to the Trustee and the Rating Agencies that, in taking the actions described in this paragraph, the interests of Owners of Bonds will not be adversely affected.

(c) In the event that the NMFA does not take one of the actions described under subsections (a) or (b) above, the NMFA must defease 2004B Bonds or 2004C Bonds to their first optional redemption date, in an amount matching as closely as possible, in Authorized Denominations, the amount of the Prepayment received. The maturity date of the Series 2004B Bonds or Series 2004C Bonds to be defeased must correspond to the principal amounts and due dates of the Principal Component of such Prepayment.

The NMFA will recalculate the Loan Payments due under any Agreement in the case of a Prepayment in part of Loan Payments.

Additional Bonds

Generally

Additional Bonds or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued or incurred, only if certain requirements have been met, including the following:

(a) NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are set forth under "Cash Flow Statement," below.

(b) All payments required by the Indenture to be made into the Bond Fund must have been made in full.

(c) The proceeds of the Additional Bonds or other indebtedness, bonds or notes must be used (i) to refund Bonds issued under the Indenture or other obligations of the NMFA (including the funding of necessary reserves and the payment of costs of issuance) or (ii) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance).

(d) No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds or other indebtedness, bonds or notes if (i) the issuance of such Additional Bonds or other indebtedness, bonds or notes otherwise complies with the requirements of the Indenture and (ii) such Event of Default will cease to continue upon the issuance of the Additional Bonds or other indebtedness, bonds or notes and the application of the proceeds thereof.

Any of the foregoing requirements may be revised or deleted with written evidence from the Rating Agency to the effect that such revision or deletion will not result in the rating on the Outstanding Bonds being lowered.

Cash Flow Statement

Pursuant to the Indenture, "Cash Flow Statement" means a certificate of the NMFA:

(a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate, the following:

(1) the amount of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(2) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(3) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding; and

(b) showing that in each such Bond Fund Year the aggregate of the amount set forth in clause (1) above divided by 1.35, plus the aggregate amount set forth in clause (2) above, exceeds 100% of the aggregate of the amounts set forth in clause (3) above. For purposes of the foregoing, the following assumptions apply:

(1) The NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12-month period during the 24 months next preceding the delivery of the Cash Flow Statement;

(2) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(3) Loans and Additional Pledged Loans will be assumed to remain in their current category designations throughout the period projected in the Cash Flow Statement.

For purposes of the Indenture and the Cash Flow Statement, "Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
Category I	100%
Category II	80%
Category III	50%
Category IV	0%

Category I Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the third highest full rating category or higher by the Rating Agency.

Category II Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

Category III Loans and Additional Pledged Loans are Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

Category IV Loans and Additional Pledged Loans are all Non-Performing Loans and Additional Pledged Loans, Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been replenished in accordance with the related Agreement, and Loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

"Non-Performing Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a covenant default) or under which a delinquency exists in payments of principal or interest thereunder.

"Rating Agency" means Moody's Investors Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

Pursuant to the Indenture, at the time of issuance of each series of Bonds, each of the Agreements executed in connection with such issuance is required to be submitted to the Rating Agency for assignment of a designation or rating or shall be designated in Category IV by the NMFA without submission to the Rating Agency. In addition, each Additional Pledged Loan is required to be submitted to the Rating Agency for assignment of a designation or a rating or shall be designated in Category IV by NMFA without submission to the Rating Agency. At any time (including upon issuance of Additional Bonds), the category assigned to an Agreement or to Additional Pledged Loans may be revised by the Rating Agency.

Of the Agreements submitted to the Rating Agency to date, $333.2 million have been designated Category I, $123.9 million have been designated Category II and $6.0 million have been designated Category III.

A = Governmental Gross Receipts Tax, B = Assumed Repayments of Loans and Additional Pledged Loans and C = Aggregate Annual Debt Service on all Bonds Outstanding):

$$(A \div 1.35) + B > C$$

No Senior Lien Obligation

No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Revenues for payment of the Bonds will be created or incurred without the prior written consent of the Owners of 100% of the Outstanding Bonds.

Outstanding Parity Bonds

The following table presents the series of Public Project Revolving Fund Revenue Bonds that are currently outstanding under the Indenture (the "Outstanding Parity Bonds").

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of October 1, 2004
1995	$ 41,230,000	$ 970,000
1996 A	21,125,000	1,535,000
1997	8,585,000	6,270,000
1999A	13,135,000	9,385,000
1999B	3,025,000	1,730,000
Taxable 1999C	2,265,000	1,340,000
Taxable 1999D	4,875,000	3,275,000
2000A	4,715,000	2,755,000
2000B	7,670,000	6,530,000
2000C	28,850,000	8,270,000
2002A	55,610,000	37,575,000
2003A	39,945,000	36,177,000
2003B	25,370,000	25,075,000
2004A-1	28,410,000	27,600,000
2004A-2	14,990,000	14,495,000
2004B-1	48,135,000	48,135,000
2004B-2	1,405,000	1,405,000
TOTAL	**$349,340,00**	**$232,522,000**

Source: Western Financial Group, LLC.

See "ANNUAL DEBT SERVICE REQUIREMENTS AND COVERAGE RATIOS" for Debt Service Requirements on the Outstanding Parity Bonds and aggregate payments under Agreements relating to the Bonds. See "THE PLAN OF FINANCING – Governmental Units and 2004C Projects" for a listing of the ten Governmental Units comprising the highest percentage of estimated annual revenues.

Outstanding Subordinate Debt

The NMFA has also issued its $24,900,000 Court Facilities Fee Revenue Bonds, Series 2002, $21,600,000 Court Facilities Fee Revenue Bonds, Series 2001A and $11,400,000 Taxable Court Facilities Fee Revenue Bonds, Series 2001B (collectively, the "Court Facilities Fee Revenue Bonds"), secured by (i) a portion of certain docketing fees and costs imposed and collected by certain courts in the State, certain fees and assessments collected in connection with motor vehicle and other violations, and certain parking fees, rents and other charges collected by the Bernalillo County Metropolitan Court from tenants and users of the parking facility after deduction of certain costs associated therewith which moneys are to be deposited in the Court Facilities Fund and (ii) amounts on deposit in the Subordinate Lien PPRF Revenue Fund, created pursuant to the Subordinated General Indenture of Trust and Pledge, dated as of August 1, 2001, as supplemented by a First Supplemental Indenture, dated as of August 1, 2001, and a Second Supplemental Indenture of Trust, dated as of September 1, 2002 (collectively, the "Subordinated General Indenture"), each between the NMFA and Bank of Albuquerque, N.A., as successor trustee. See SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS—Flow of Funds."

The Subordinate Lien PPRF Revenues consists of those monies released to the NMFA from the Revenue Fund created pursuant to the Indenture on June 1 of each year. Pursuant to the Subordinated General Indenture, all such released moneys are to be deposited into the Subordinate Lien PPRF Revenue Fund created by the Subordinated General Indenture and are included in Subordinate Lien PPRF Revenues. Moneys in the Subordinate Lien PPRF Revenue Fund are available to pay on a parity basis debt service on Subordinate PPRF Bonds issued pursuant to the Subordinated General Indenture and on other obligations issued or incurred payable from and constituting a lien upon the Subordinate Lien PPRF Revenues (the "PPRF Secured Obligations"). The Court Facilities Fee Revenue Bonds are PPRF Secured Obligations. The NMFA may also issue additional bonds under the Subordinated General Indenture. The timing, amount and other details of any additional subordinate bonds have not been determined.

The NMFA has prepared an amended and restated Subordinated General Indenture, which will, among other things, permit the NMFA to issue variable rate bonds and enter into interest rate swaps and other investment vehicles. The NMFA will need to obtain the consent of each rating agency and bond insurer that has rated or insured an outstanding Series of Bonds before the amended and restated Subordinated General Indenture becomes effective, but will not need to obtain bondholder consent.

Supplemental Indentures and Amendments to Agreements; Rating Agency Discretion

Pursuant to the Indenture, the NMFA and the Trustee may, without the consent of or notice to any of the Owners of the Bonds, enter into an indenture or indentures supplemental to the Indenture in order to make certain amendments or changes to the Indenture, including any amendment with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds, following such amendment, being lower than the rating on the Bonds immediately prior to such amendment. See APPENDIX B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – SUPPLEMENTAL INDENTURES."

In addition, the NMFA with the consent of the Trustee and the related Governmental Unit may, without the consent of any Owners of the Bonds, amend any Agreement including any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; or to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

BOND INSURANCE

The following information has been furnished by Ambac Assurance Corporation ("Ambac Assurance" or, as defined elsewhere herein, the "Series 2004C Bond Insurer") for use in this Official Statement. Such information regarding the Series 2004C Bond Insurer and the Series 2004C Bond Insurance Policy is not guaranteed as to accuracy or completeness by the NMFA or the Underwriters and is not to be construed as a representation by the NMFA or the Underwriters as to the accuracy or completeness of such information. None of the NMFA or the Underwriters have assumed responsibility to independently verify this information. No representation is made by the NMFA or the Underwriters as to the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix G for a specimen of the Series 2004C Bond Insurance Policy.

Payment Pursuant to Series 2004C Bond Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Series 2004C Bond Insurance Policy") relating to the Series 2004C Bonds effective as of the date of issuance of the Series 2004C Bonds. Under the terms of the Series 2004C Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2004C Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Series 2004C Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2004C Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Series 2004C Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2004C Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2004C Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2004C Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2004C Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2004C Bond which has become Due for Payment and which is made to an Owner by or on behalf of the NMFA has been deemed a preferential transfer and theretofore recovered from its Owner pursuant to the United States Bankruptcy Code in accordance with a final nonappealable order of a court of competent jurisdiction, such Owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Series 2004C Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Series 2004C Bond Insurance Policy. Specifically, the Series 2004C Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Series 2004C Bond Insurance Policy, payment of principal requires surrender of Series 2004C Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2004C Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Series 2004C Bond Insurance Policy. Payment of interest pursuant to the Series 2004C Bond Insurance Policy requires proof of the Owner's entitlement to interest payments and an appropriate assignment of the Owner's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the Owner of the Series 2004C Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2004C Bond and will be fully subrogated to the surrendering Owner's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,142,000,000 (unaudited) and statutory capital of $4,824,000,000 (unaudited) as of June 30, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the obligor of such obligation.

Ambac Assurance makes no representation regarding the Series 2004C Bonds or the advisability of investing in the Series 2004C Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004; and

6. The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

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THE PLAN OF FINANCING

Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2004C Bonds are set forth in the following tables.

Sources and Uses of Funds

SOURCES:	
Series 2004C Bond Par Amount	$168,890,000.00
Plus: Original Issue Premium	16,037,458.00
NMFA Contribution	917,084.30
Debt Service Reserve From NMFA Loan	2,505,060.52
TOTAL SOURCES:	**$188,349,602.82**
USES:	
NMFA Reimbursement for 2004C Loans(1)	$ 71,058,597.88
Albuquerque Bernalillo County Water Authority Loan	112,915,260.43
Costs of Issuance(2)	1,870,683.99
Debt Service Reserve Fund	2,505,060.52
TOTAL USES:	**$188,349,602.82**

(1) A portion of the Series 2004C Bond proceeds will be paid to the NMFA to reimburse the Public Project Revolving Fund for advances already made by the NMFA to certain 2004C Governmental Units. Advances made to the Program Fund have been or will be used to pay all or a portion of the costs of the 2004C Projects.

(2) Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, Underwriters' discount, insurance premium and other miscellaneous costs. See "UNDERWRITING" herein.

Governmental Units and 2004C Projects

Governmental Units

The following table lists the 2004C Governmental Units that received advances from the NMFA out of the Public Project Revolving Fund for the financing of their respective 2004C Projects, which advances will be reimbursed, in whole or in part, from the proceeds of the Series 2004C Bonds.

The 2004C Governmental Units and the 2004C Projects

Governmental Unit	Project	Allocable Portion to be Financed with 2004C Bonds Proceeds
County of Grant- Sapillo Creek Volunteer Fire Department	Fire Equipment Acquisition	$ 85,000
City of Hobbs	Capital Improvements	2,915,000(1)
Town of Tatum	Law Enforcement Vehicles	25,226
Taos Regional Landfill Board	Landfill Infrastructure	1,372,684(1)
Village of Ruidoso	Fire Equipment Acquisition	589,992(1)
Catron County - Wild Horse Volunteer Fire Department	Fire Equipment Acquisition	83,819(1)
Quay County	Equipment Acquisition	158,334(1)
Valencia County	Judicial Complex Project	9,870,000
Bloomfield School District #6	Building Project	3,800,000
Cibola County San Rafael Volunteer Fire Department	Fire Equipment Acquisition	51,857
City of Alamogordo	Fire Equipment Acquisition	455,000
Tatum Municipal School District	Building Project	3,500,000
Jemez Valley Public School District #31	Building Project	450,000
City of Carlsbad	Youth Sports Complex Project	3,500,000
City of Hobbs	Fire Equipment Acquisition and Building Project	400,000
Town of Clayton	Fire Equipment Acquisition	116,500
Public Regulation Commission – Insurance Division	Computer Equipment Acquisition	275,000
City of Albuquerque	Equipment Acquisition	5,800,000
Dexter Consolidated Schools	Building Project	520,000
Village of Angel Fire	Road Improvement Project	1,105,557(1)
Town of Bernalillo	Wastewater Treatment Plant Upgrade	555,556(1)
Farmington Municipal Schools	Building Project	4,500,000
City of Rio Rancho	Road Equipment Acquisition	215,556(1)
Des Moines Municipal School District #22	Infrastructure Project	175,000
Village of Grady	Fire Equipment Acquisition	222,223(1)
Cuba Independent School District	Building Project	250,000
Guadalupe County	Building Project	333,132(1)
Guadalupe County	Equipment Acquisition	369,445(1)
Colfax County - French Tract District #5	Fire Equipment Acquisition	166,667(1)
Colfax County - Philmont Fire District #1	Fire Equipment Acquisition	311,112(1)
Mosquero School District #5	Building Project	60,000
City of Albuquerque	Convention Center Upgrade	5,700,000
Springer Municipal School District #24	Education Technology Equipment	250,000
City of Raton	Equipment Acquisition	73,000
Valencia County - El Cerro Volunteer Fire Department	Fire Equipment Acquisition	194,445(1)
Valencia County - Tome Adelino Fire Department	Fire Equipment Acquisition	130,000
City of Truth or Consequences	Utility Project	1,425,693(1)
City of Santa Fe	Infrastructure Project	5,107,652
City of Aztec	Library Project	1,679,942(1)
City of Las Cruces	Wastewater Infrastructure Project	219,480(1)
Miner's Colfax Medical Center	Hospital Improvements	10,822,812(1)
New Mexico State Fair/Expo NM	Fairground Improvements	5,555,556
Albuquerque Bernalillo County Water Utility Authority(2)	Infrastructure Improvements	118,415,000
TOTAL		**$191,806,240**

(1) Certain 2004C Loan Agreements have Agreement Reserve Accounts funded with loan proceeds or equity contributions from the applicable 2004C Governmental Units in the aggregate amount of $2,505,060.52 (includes Agreement Reserve Fund Accounts for 2004C Loans closed prior to September 3, 2004).

(2) All projects are reimbursed with proceeds of the Series 2004C Bonds except the Albuquerque Bernalillo County Water Utility Authority Loan which is being funded on the date of closing of the Series 2004C Bonds with proceeds of the Series 2004C Bonds.

Generally

The following table lists the ten Governmental Units comprising the highest percentage of Fiscal Year 2005 estimated annual Revenues that have entered into Agreements with the NMFA for Projects that have been financed with Bonds.

Outstanding Obligations of the Ten Governmental Units Comprising the Highest Percentage of Estimated Annual Pledged Revenues

Borrower	FY 2005 Debt Service	% of Projected FY 2005 Pledged Revenues	Final Maturity
Albuquerque Bernalillo County Water Utility Authority	$4,969,836	10.16%	5/1/2024
State Energy, Minerals and Natural Resources Department	2,286,552	4.67%	5/1/2023
City of Albuquerque(1)	2,216,842	4.53%	7/1/2026
Gallup McKinley School District	1,814,809	3.71%	8/1/2023
City of Gallup	1,002,963	2.05%	8/1/2010
Valencia County	898,968	1.84%	8/1/2018
Eddy County	893,718	1.83%	5/1/2014
Northwest Solid Waste	863,136	1.76%	5/1/2018
Taos County	797,875	1.63%	5/1/2021
City of Hobbs	786,519	1.61%	5/1/2016

(1) Assumes City of Albuquerque Loans are paid on June 30 of each fiscal year.

Source: New Mexico Finance Authority.

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ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2004C Bonds for each fiscal year through their final maturity date.

Debt Service for the Series 2004C Bonds

Fiscal Year	Principal[1]	Interest[2]	Annual Debt Service Requirements[3]
2005	$3,610,000	5,193,697	$8,803,697
2006	7,495,000	8,110,325	15,605,325
2007	6,245,000	7,810,525	14,055,525
2008	5,370,000	7,554,925	12,924,925
2009	7,030,000	7,336,425	14,366,425
2010	10,245,000	7,015,525	17,260,525
2011	10,930,000	6,538,275	17,468,275
2012	12,390,000	6,026,775	18,416,775
2013	12,810,000	5,422,275	18,232,275
2014	13,460,000	4,759,375	18,219,375
2015	12,585,000	4,052,725	16,637,725
2016	12,670,000	3,443,475	16,113,475
2017	7,150,000	2,778,300	9,928,300
2018	8,170,000	2,402,925	10,572,925
2019	7,920,000	1,974,000	9,894,000
2020	7,080,000	1,558,200	8,638,200
2021	7,395,000	1,186,500	8,581,500
2022	7,835,000	816,750	8,651,750
2023	4,390,000	425,000	4,815,000
2024	4,110,000	205,500	4,315,500
TOTAL	**$168,890,000**	**$84,611,497**	**$253,501,497**

(1) Payable on June 1 of each year.

(2) Payable on June 1 and December 1, commencing June 1, 2005.

(3) Numbers are rounded to the nearest dollar.

Source: Western Financial Group, LLC.

The following table shows estimated available Revenues, total debt service requirements for the Series 2004C Bonds and the Outstanding Parity Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on fiscal year 2003-2004 collections of the NMFA portion of the Governmental Gross Receipts Tax and scheduled payments under the Agreements and Additional Pledged Loans, and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized.

Projected Annual Debt Service Requirements and Coverage Ratios

	Revenues			Debt Service Requirements			
Fiscal Year	Governmental Gross Receipts Tax[1]	Aggregate Pledged Borrower Payments[2][3]	Estimated Total Revenues	Total Debt Service Requirements for 2004C Bonds[4]	Total Debt Service Requirements for Outstanding Parity Bonds[5]	Total Debt Service Requirements for 2004C Bonds and Outstanding Parity Bonds	Estimated Annual Coverage Ratios[6]
2005	$18,368,369	$30,550,415	$48,918,784	$8,803,698	$24,483,106	$33,286,803	1.47
2006	18,368,369	42,648,748	61,017,117	15,605,325	25,593,469	41,198,794	1.48
2007	18,368,369	40,491,801	58,860,170	14,055,525	25,596,019	39,651,544	1.48
2008	18,368,369	38,543,025	56,911,394	12,924,925	25,284,114	38,209,039	1.49
2009	18,368,369	38,236,235	56,604,604	14,366,425	24,516,585	38,883,010	1.46
2010	18,368,369	41,124,219	59,492,588	17,260,525	21,871,628	39,132,153	1.52
2011	18,368,369	42,191,224	60,559,593	17,468,275	22,505,976	39,974,251	1.51
2012	18,368,369	41,343,536	59,711,905	18,416,775	21,693,297	40,110,072	1.49
2013	18,368,369	45,376,331	63,744,700	18,232,275	19,289,050	37,521,325	1.70
2014	18,368,369	36,089,430	54,457,799	18,219,375	16,958,168	35,177,543	1.55
2015	18,368,369	33,973,434	52,341,803	16,637,725	17,503,385	34,141,110	1.53
2016	18,368,369	31,055,324	49,423,693	16,113,475	15,071,217	31,184,692	1.58
2017	18,368,369	22,313,166	40,681,535	9,928,300	11,519,307	21,447,607	1.90
2018	18,368,369	20,174,572	38,542,941	10,572,925	9,194,186	19,767,111	1.95
2019	18,368,369	17,892,579	36,260,948	9,894,000	7,760,412	17,654,412	2.05
2020	18,368,369	16,642,191	35,010,560	8,638,200	7,257,702	15,895,902	2.20
2021	18,368,369	14,913,965	33,282,334	8,581,500	6,160,006	14,741,506	2.26
2022	18,368,369	14,498,349	32,866,718	8,651,750	5,276,599	13,928,349	2.36
2023	18,368,369	10,363,426	28,731,795	4,815,000	5,164,739	9,979,739	2.88
2024	18,368,369	8,346,497	26,714,866	4,315,500	3,724,190	8,039,690	3.32
2025	18,368,369	2,436,545	20,804,914	--	2,393,460	2,393,460	8.69
2026	18,368,369	2,382,633	20,751,002	--	2,380,244	2,380,244	8.72
2027	18,368,369	2,047,185	20,415,554	--	1,994,093	1,994,093	10.24
2028	18,368,369	527,942	18,896,311	--	791,068	791,068	23.89
2029	18,368,369	805,956	19,174,325	--	795,513	795,513	24.10
2030	18,368,369	608,392	18,976,761	--	594,216	594,216	31.94
2031	18,368,369	132,414	18,500,783	--	596,613	596,613	31.01
2032	18,368,369	70,457	18,438,826	--	564,708	564,708	32.65
2033	18,368,369	46,384	18,414,753	--	42,050	42,050	437.93

(1) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS — Revenues — The Governmental Gross Receipts Tax." Future collections of the NMFA Portion of the Governmental Gross Receipts Tax are based on unaudited fiscal year 2003-2004 collections provided by the NMFA.

(2) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS — Revenues — The Agreements and the Agreement Pledged Revenues" and "— Additional Pledged Loans." Includes scheduled payments under Agreements entered into in connection with the Outstanding Parity Bonds and outstanding Additional Pledged Loans.

(3) The calculations in this column do not reflect the prepayments of any Loans that may occur while the Series 2004C Bonds are outstanding.

(4) Numbers are rounded to the nearest dollar.

(5) Does not reflect debt service requirements for outstanding subordinate debt.

(6) The Estimated Annual Coverage Ratios are calculated using unaudited fiscal year 2003-2004 governmental gross receipts tax collections provided by the NMFA, assuming that no additional Parity Bonds will be issued by the NMFA.

Sources: New Mexico Finance Authority and Western Financial Group LLC.

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, and governmental instrumentality of the State. It was created in 1992 pursuant to the Act for the purpose of coordinating the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is governed by a board of directors and currently employs 25 persons, including an Executive Director. The Executive Director directs the business and affairs of the NMFA, subject to the policies, control and direction of the Board of Directors.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects and pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers: to sue or be sued; to adopt, subject to the review and approval of the NMFA oversight committee, such regulations as are necessary and appropriate to implement the provisions of the Act; to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the Act; to acquire, construct, hold, improve, mortgage, sell, lease, convey or dispose of real and personal property for its public purposes; to make loans and purchase securities and contract to make loans and purchase securities; to make grants from the Water and Wastewater Project Grant Fund and Water and Wastewater Planning Fund to qualified entities to finance public projects; to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance; to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA; to borrow money and to issue bonds and provide for the rights of holders of the bonds; to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts; to invest and reinvest its funds and to take and hold property as security for the investment of such funds; and to employ advisers, consultants and agents. The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA's Board of Directors, which is its governing body, is composed of the 12 members of the NMFA, seven of which are *ex-officio* members designated in the Act and five of which are appointed by the Governor with the advice and consent of the State senate. The seven designated members include five *ex-officio* State officials, of which four are cabinet-level secretaries (the secretary of finance and administration, the secretary of economic development, the secretary of energy, minerals and natural resources, and the secretary of environment), and one is a State agency official (the State Investment Officer), and two are the chief executives of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). One of the five members appointed by the Governor must be the chief financial officer of a State higher educational institution and the remaining four members appointed by the Governor are members of the public. Each of the appointed members of the NMFA serve staggered four-year terms. Vacancies are filled by appointment for the remainder of the unexpired term. Any member is eligible for reappointment.

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it: meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the Act and to review and approve regulations proposed for adoption; monitors and provides assistance and advice on the public project financing program of the NMFA; oversees and monitors State and local government capital planning and financing; provides advice and assistance to the NMFA and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects; undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the "Legislature"). The report and proposed legislation is required to be made available on or before December 15 each year.

The Governor's Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003, to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. Although the NMFA is a governmental instrumentality separate from the State and not legally an "executive agency," the NMFA voluntarily participates in the Governor's Finance Council in order to meet the goals of Executive Order No. 2003-017 and the goals of the NMFA.

Governing Body and Staff Members

Current members of the Board of Directors of the NMFA, and their respective occupations, are presented below:

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Name	Occupation	Term Expires
Gary Bland [(1)]	State Investment Officer, State Investment Council	not applicable
John Carey [(2)]	President and CEO, Association of Commerce and Industry	01/01/08
Ron Curry [(1)]	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance [(2)] (Chairman)	Owner/CEO, The Flance Company	12/31/05
William Fulginiti [(1)] (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Randy Harris [(2)]	President and CEO, Bank of Clovis	12/31/04
Rick Homans [(1)]	Secretary, Economic Development Department, State of New Mexico	not applicable
James Jimenez [(1)]	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
James L. McDonough [(2)]	Vice President for Business and Finance, New Mexico State University	12/31/07
Samuel O. Montoya [(1)] (Secretary)	Executive Director, New Mexico Association of Counties	not applicable
Joanna Prukop [(1)]	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves [(2)]	President, First National Bank of New Mexico	121/31/07

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(1) *Ex-officio* member.

(2) Appointed by the Governor of the State.

Set out below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2004C Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Executive Director. William C. "Bill" Sisneros serves as the Executive Director of the New Mexico Finance Authority, having been appointed to the position on June 10, 2004. Prior to his appointment, Mr. Sisneros was a consultant and businessman, President of WCS Consultants and the CEO of Jenkeel, Ltd., a New Mexico Corporation d/b/a The Club at El Gancho. Mr. Sisneros provided services to public and private sector clients specializing in management and organization development consulting and land development process consulting. Mr. Sisneros also lectured on management and performance budgeting and performed management and training nationwide. Mr. Sisneros is a graduate of the University of Colorado at Boulder with a Masters Degree in Public Administration. His prior management experience includes: CEO and General Manager of Jenkeel, Ltd; City Manager of Santa Fe, New Mexico; Town Manager of Taos, New Mexico, Assistant City Manager of Boulder, Colorado; and Administrative Assistant in Englewood, Colorado in the Denver-Metro area.

Mr. Sisneros has been active in the Santa Fe community having served on the Executive Board of St. Vincent Hospital, as President of the Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., on the Board of Directors of Open Hands, and New Mexico CARES. He served as a member of the New Mexico First Board of Directors which was created by Senator Jeff Bingaman and Senator Pete Domenici.

Keith H. Mellor, Chief Financial Officer. Mr. Mellor joined the NMFA in November 1995. Before coming to the NMFA, Mr. Mellor was controller for the Los Alamos Credit Union. He brings with him an extensive background in controllership, investment portfolio management, governmental auditing and accounting. His responsibilities include design, implementation, and maintenance of financial controls, reporting systems and investment strategies. Prior to serving at the Los Alamos Credit Union, Mr. Mellor was CFO/Controller for CNS, Inc., a systems engineering and integration firm. Mr. Mellor holds a B.S. in accounting from Metro State College, Denver, Colorado. He holds a Certified Public Accountant's license in the State of Colorado.

Marquita D. Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 15 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax-exempt hospital bonds. Ms. Russel earned her bachelor's degree from Marquette University, Milwaukee, Wisconsin.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

The Public Project Revolving Fund Program

The Public Project Revolving Fund Program of the NMFA is authorized by the Act and was created to fulfill the duty of the NMFA to develop and administer a program to assist qualified entities, individually or jointly, in financing all types of projects of a long-term capital nature, including but not limited to buildings and furnishings, water systems, water rights, sewerage and waste disposal systems, solid waste disposal systems, land, streets, airports, municipal utilities, parking facilities and capital equipment. To implement the Public Project Revolving Fund Program, the NMFA has been granted the following specific powers: to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA; to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (i) a loan to a qualified entity, (ii) a purchase or sale of securities individually or on a pooled basis, or (iii) the performance of its duties and execution of any of its powers under the Act; to purchase, hold or sell securities; to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities; in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and to acquire and hold title to or leasehold interest in real and personal property and to sell, convey or lease that property in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

The NMFA has issued series of its Public Project Revolving Fund Revenue Bonds since July 1995. The proceeds of such bonds have been used to make loans and grants to numerous local governmental entities of the State, as well as four departments of State government, for the construction of infrastructure projects. In August 2004, the NMFA authorized the issuance of up to $205,000,000 principal amount of its Public Project Revolving Fund Bond Anticipation Note, Series 2004A (the "PPRF Note"), to provide for the interim financing of such loans and grants. Subsequent to that August 2004 authorization, the NMFA entered into an agreement with Bank of America, N.A., whereby Bank of America, N.A. agreed to purchase the PPRF Note from the NMFA in installments and as requested by the NMFA, in an aggregate sum not exceeding $205,000,000. As of the date of this Official Statement, the NMFA had not requested Bank of America, N.A., to make any such purchase. Whether the NMFA will request Bank of America, N.A. to make any such purchase in the future is uncertain.

Other NMFA Programs and Projects

The NMFA participates in several other programs designed to provide financing for equipment and projects to both local government entities and state agencies. These projects are funded by various sources and do not have a lien or claim of any type on the Trust Estate that secures the Series 2004C Bonds.

Workers' Compensation Administration Building Financing

In 1993 and 1994, the Legislature authorized the NMFA to sell a total of $6 million in revenue bonds for the acquisition of land and site improvement, planning, designing, constructing, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided that the first forty cents of each quarterly four dollars of Workers' Compensation assessment paid to the State would be pledged to the NMFA for payment of the revenue bonds associated with the WCA project. In July 1995, the NMFA publicly sold $2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold $4,310,000 in long-term bonds to retire the outstanding bonds and to finance construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

In 1993, the Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of $6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center.

In 2003, the Legislature authorized the NMFA to issue up to $60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA issued the first series of the bonds in an aggregate principal amount of $39,035,000 on April 1, 2004, and expects to issue two additional series, one in an estimated aggregate principal amount of $10,000,000 in September 2004 and one in 2007.

Primary Care Capital Fund

In 1994, a $5,000,000 revolving fund was created in the State treasury from which to provide loans and other financial assistance to rural primary care health clinics. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Health Department and the NMFA have negotiated a joint powers agreement whereby the Health Department will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Health Department adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded thirteen loans totaling approximately $6,652,584.

Administrative Office of the Courts Financing

The 1996 and 1999 Legislatures authorized the NMFA to issue revenue bonds in an amount not to exceed $12 million for the purpose of financing acquisition of court automation systems for the State court system and development of statewide appellate automation, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. The NMFA sold $8,500,000 in bonds in 1996 and an additional $3,500,000 in bonds in 1999. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, and a portion of certain costs and penalty assessments to be collected upon conviction of persons of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The 1996 and 1999 Bonds were defeased on June 1, 2001.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to $1,585,000,000 in bonds in annual increments of $350,000,000 for the purpose of financing state transportation projects. The NMFA sold $700,000,000 of its State Transportation Revenue Bonds (Senior Lien) Series 2004A, $237,950,000 of its State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004B and $200,000,000 of its Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C on April 30, 2004, for delivery on May 20, 2004. The Series 2004A bonds financed transportation projects of the State Department of Transportation. The Series 2004B and Series 2004C bonds refunded and restructured the NMFA's outstanding Federal Highway Grant Anticipation Revenue Bonds, Series 1998A and Series 2001, and certain maturities of several issues of State Transportation Commission bonds, all of which were issued for the purposes of financing certain public highway projects in the State. The bonds will be payable from State road fund and federal transportation revenues and not from the Pledged Revenues.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was signed into law on April 9,1997. The Drinking Water Fund Act creates, in the NMFA, the New Mexico Drinking Water State Revolving Loan Fund (DWRLF) which is administered by the NMFA. The NMFA was charged with the establishment, in cooperation with the State Environment Department, of a loan program to provide local authorities with low-cost financial assistance in the construction of drinking water facilities necessary to protect the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act (SDWA), which required the Environmental Protection Agency (EPA) to make capitalization grants to the states to further the health objectives of the SDWA. Under the re-authorization, capitalization grants will be made to the states over the next seven years.

The State has been awarded a total of $58,947,600 in capitalization grants from the EPA through August 1, 2004, and has provided a total state match of $11,789,520.

The NMFA can utilize funds in the DWRLF to make loans to localities for drinking water facility construction, renovation or expansion. For projects with proper legislative approval, these loans can be combined with loans from the Public Project Revolving Fund to leverage the funds in the DWRLF to create a greater dollar volume of loans. To date the NMFA has funded 17 loans totaling approximately $21,062,361 and has committed to fund seven additional loans totaling approximately $31,482,460.

Bernalillo Metropolitan Court

During the 1998 special legislative session and the 2000 legislative session, the Legislature authorized the NMFA to issue up to $57,900,000 in revenue bonds for the purpose of financing the acquisition of real property and the design, construction and equipping of a new court building and an adjacent parking facility for the Bernalillo Metropolitan Court in Albuquerque, New Mexico. The first series of bonds for the Metropolitan Court Project, the Court Facilities Fee Revenue Bonds, were issued on August 16, 2001 in the amount of $33,000,000. On September 5, 2002, the next series of bonds was issued in the amount of $24,900,000. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle and certain other amounts on deposit in the Subordinate Lien PPRF Revenue Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS - Outstanding Subordinate Debt" herein.

During the 2003 legislative session, the Legislature authorized the NMFA to issue an additional $3,900,000 in revenue bonds for the purpose of funding additional improvements to the Bernalillo Metropolitan Court. These bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Water and Wastewater Grant Fund Program

In 2000, the Legislature authorized the NMFA to issue up to $5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated approximately $41,000,000 to the Water and Wastewater Grant Fund Program to fund 72 public water and wastewater systems. In 2002, the Legislature appropriated $15,000,000 to the Water and Wastewater Grant Fund, but did not identify specific projects to receive the benefit of these funds. For this reason, the NMFA has used the 2002 legislative appropriation only for certified emergency projects. In 2004, the Legislature authorized the NMFA to make grants to benefit more than 200 projects. The NMFA will fund grants for these projects on a first come first served basis. As of August 1, 2004, the NMFA Board of Directors has approved 169 grants, totaling approximately $60,562,355. All funds in the Water and Wastewater Grant Fund have been obligated.

Water and Wastewater Planning Fund Program

The Water and Wastewater Planning Fund was created by the Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued $1,000,000 in bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional $1,000,000 to this fund. As of June 30, 2004, the NMFA Board of Directors has approved 45 grants, totaling approximately $931,740.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue bonds in the amount of $75,000,000 to finance four separate projects: (i) purchase, renovate, equip and furnish the National Education Association Building on South Capitol Street in Santa Fe, (ii) plan, design, construct, equip and furnish a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, (iii) purchase, renovate, equip and furnish the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, and (iv) purchase land adjacent to the District 5 Office of the State Highway and Transportation Department on Cerrillos Road in Santa Fe. The bonds are payable from a pledge of a portion of the State's gross receipts tax. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of $34,695,000 to finance a portion of the authorized projects.

The Legislature in 2003 authorized the NMFA to issue bonds in the amount of $5,760,000 for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The bonds are payable from a pledge of a portion of the State's gross receipts tax. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Interim Loan Programs

The NMFA is authorized to use money on deposit in the public project revolving fund to make loans to qualified entities for the financing of (1) equipment for fire protection, law enforcement and protection, computer and data processing, street and road construction and maintenance, emergency medical services, solid waste collection, transfer and disposal, radio and telecommunications, and utility system purposes, and (2) the acquisition, construction and improvement of fire stations. Interim loans may be made for those purposes in amounts not exceeding five hundred thousand dollars, and will, within two years after loans are made, be specifically authorized by law at a legislative session or, within that two year period, bonds will be issued by the NMFA, the proceeds of which will be used to reimburse the public project revolving fund for the amounts used to make interim loans. Projects funded with the proceeds of interim loans under the equipment program are not required to obtain specific authorization by law, as required of projects funded directly from the public project revolving fund.

The Subordinate Lien Program

The NMFA is authorized to issue bonds pursuant to the Subordinated General Indenture of Trust and Pledge, dated as of June 1, 2002, and supplements thereto (collectively, the "Subordinated General Indenture") to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. In connection with the issuance of bonds issued pursuant to the Subordinated General Indenture (the "Subordinate PPRF Bonds"), the NMFA may enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate PPRF

Bonds for projects. Such loan agreements and securities are referred to herein as "Subordinate PPRF Agreements." The Subordinate PPRF Bonds are secured by (i) all revenues received or earned by the NMFA from or attributable to the Subordinate PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program); (ii) public project revolving fund revenues released from the Indenture; (iii) all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Subordinated General Indenture; and (iv) all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Subordinated General Indenture. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2004C BONDS – Outstanding Subordinate Debt."

LITIGATION

To the knowledge of the NMFA, there is no controversy or litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2004C Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Revenues for the payment of the debt service on the Series 2004C Bonds or in any way contesting or affecting the validity or enforceability of the Series 2004C Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA and the office of the New Mexico Attorney General will deliver no-litigation certificates as to the foregoing prior to the issuance of the Series 2004C Bonds.

UNDERWRITING

RBC Dain Rauscher Inc., Banc of America Securities LLC and George K. Baum & Company (collectively, the "Underwriters") have agreed to purchase the Series 2004C Bonds from the NMFA pursuant to a Bond Purchase Agreement dated September 23, 2004 (the "Bond Purchase Agreement"), at an aggregate price of $184,032,341 (being the aggregate principal amount plus a net original issue premium of $16,037,458 and less Underwriters' discount of $895,117). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2004C Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the Series 2004C Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

TAX MATTERS

Federal Income Tax

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004C Bonds. The NMFA and the Governmental Units whose loans are being financed by the issuance of the Series 2004C Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004C Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm, continuing compliance by the NMFA and such 2004C Governmental Units with such requirements and restrictions in rendering its opinion regarding the tax exempt status of interest on the Series 2004C Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. Said Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds.

Original Issue Premium. The Series 2004C Bonds are being offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2004C Bond through reductions in the holder's tax basis for the Series 2004C Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Series 2004C Bond rather than creating a deductible expense or loss. Series 2004C Bondholders should consult their tax advisors for an explanation of the amortization rules.

State of New Mexico Income Tax

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, under laws of the State of New Mexico as currently enacted and construed, interest on the Series 2004C Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2004C Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions included in Appendix E hereto. Certain legal matters will be passed upon for the NMFA by the Office of the Attorney General for the State of New Mexico or by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Disclosure Counsel to the NMFA, and for the Underwriters by Andrews Kurth LLP, Houston, Texas. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA contained in this Official Statement.

EXPERTS

The NMFA has retained Western Financial Group, LLC, as financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2004C Bonds.

Western Financial Group, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

FINANCIAL STATEMENTS

The combined financial statements of the NMFA for the year ended June 30, 2003, included as Appendix A of this Official Statement have been audited by Neff + Ricci, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated October 10, 2003. Such financial statements represent the most current audited financial information available for the NMFA. Neff + Ricci, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement.

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the NMFA's and certain Governmental Units' future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission in connection with the issuance of the Series 2004C Bonds, the NMFA will execute and deliver a Continuing Disclosure Undertaking pursuant to which it will agree to provide the following information:

(i) to each nationally recognized municipal securities information repository ("NRMSIR"):

(1) annual financial information and operating data as follows:

(a) with respect to the NMFA, information concerning the NMFA Portion of the Governmental Gross Receipts Tax Revenues, such information to be of the type set forth under the table captioned "Governmental Gross Receipts Taxes Collections – Fiscal Years 1999-2000 Through 2003-2004" under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – Revenues – The Governmental Gross Receipts Tax" in the Official Statement; and

(b) with respect to any Governmental Unit whose Loan repayment obligations constitute more than five percent of the estimated annual Revenues for the first full year in which the Series 2004C Bonds are outstanding (the "5% test") information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement Pledged Revenues, or such shorter period for which such information is available; and

(2) audited financial statements for the NMFA and any Governmental Unit meeting the 5% test.

Such information will be provided within 270 days of the end of each fiscal year and will be made available, in addition to each NRMSIR, to the Trustee and to each holder of the Series 2004C Bonds who requests such information. In the event that audited financial statements are not available within such time period, unaudited financial statements will be provided;

(ii) in a timely manner to the Municipal Securities Rulemaking Board ("MSRB") and to each State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Series 2004C Bonds or the Agreements, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the Series 2004C Bonds;

(7) modification of rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Series 2004C Bonds; and

(11) rating changes.

The NMFA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA, such other event is material with respect to the Series 2004C Bonds or the Agreements. However, the NMFA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above; and

(iii) in a timely manner to the MSRB and to each State information depository, if any, notice of a failure to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The NMFA reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA; provided that, the NMFA has agreed that any such modification will be done in a manner consistent with the Rule. The NMFA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the Series 2004C Bonds and shall be enforceable by the Owners; provided that, the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA's obligations, and any failure by the NMFA to comply with the provisions of the undertaking shall not be an event of default with respect to the Series 2004C Bonds.

Continuing disclosure undertakings previously entered into by the NMFA called for it to file certain annual financial information and operating data and audited financial statements for the NMFA and any Governmental Unit meeting the 5% test with each NRMSIR no later than 270 days after the end of each fiscal year. In September 2004, the NMFA discovered that for fiscal years 2001 and 2002 only the audited financial statements of the NMFA were filed with the NRMSIRs. For fiscal year 2003 annual financial information and operating data and audited financial statements for the NMFA were filed with each NRMSIR, but the audited financial statements for the Governmental Units meeting the 5% test were not filed. On October 1, 2004, NMFA notified the MSRB of its failure to file the annual financial information and operating data and the audited financial statements for the Governmental Units meeting the 5% test. The NMFA expects to file annual financial information and operating data and the audited financial statements for the City of Albuquerque, New Mexico and the Energy, Minerals and Natural Resources Department of the State of New Mexico on October 4, 2004. NMFA believes that, as of October 4, 2004, it will be in compliance with its continuing disclosure undertakings.

Financial information and operating data for the Albuquerque Bernalillo County Water Utility Authority, the only Governmental Unit which is expected to provide more than five percent of estimated annual Revenues in the first full year in which the 2004C Bonds will be Outstanding, is set forth in Appendix E.

RATINGS

Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa," "AAA" and "AAA," respectively, to the Series 2004C Bonds, based on the understanding that upon the delivery of the Series 2004C Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2004C Bonds will be issued by a municipal bond insurer. In addition, Moody's, S&P and Fitch have assigned underlying (*i.e*., without regard to a municipal bond insurance policy) long-term ratings of "A1," "A" and "AA," respectively, to the Series 2004C Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, S&P at 55 Water Street, New York, New York 10041, and Fitch at One State Street Plaza, New York, New York 10004.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2004C Bonds and there is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings given to the Series 2004C Bonds may have an adverse effect on the market price of the Series 2004C Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2004C Bonds any proposed revision or withdrawal of the ratings on the Series 2004C Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2004C Bonds.

APPROVAL BY THE NMFA

This Preliminary Official Statement has been deemed "final" as of its date under the meaning of the Rule, but is subject to revision, amendment and completion as a Final Official Statement. Its distribution and use by the Underwriters have been duly authorized and approved by the NMFA, and the Final Official Statement will be executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Executive Director.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance,
Chairman of the Board of Directors

By /s/ William C. Sisneros
William C. Sisneros,
Executive Director

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2003

NEW MEXICO FINANCE AUTHORITY

INTRODUCTORY SECTION

FINANCIAL SECTION

B. **BASIC FINANCIAL STATEMENTS**

Governmental Fund Financial Statements

Enterprise Fund Financial Statements

SUPPLEMENTAL INFORMATION

SINGLE AUDIT INFORMATION

NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2003

Official Roster

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Samuel O. Montoya, Secretary
Ron Curry
James Jimenez
Rick Homans
Joanna Prukop
Gary Bland
James L. McDonough
Craig Reeves
Randy Harris
David Stone

Executive Director

David W. Harris

Chief Financial Officer

Keith H. Mellor

Controller

Joe Gosline

NEFF · RICCI LLP
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE · SUITE 400 · ALBUQUERQUE, NM 87110
TEL: 505.830.6200 FAX: 505.830.6282 WEB: WWW.NEFFCPA.COM

Independent Auditors' Report

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Authority, as of June 30, 2003, and the respective changes in the financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4-14 is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of pledged collateral is presented for purposes of additional analysis and are not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to each of the respective individual funds taken as a whole.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The New Mexico Finance Authority (the Authority) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (ability to address future year challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

HIGHLIGHTS

Financial Highlights

Statement of Net Assets (see table 1)
The Authority's total net assets at FY 2003 year end were $149,344,036 compared to $152,594,772 in FY 02 a net decrease of $3,250,736 due to the following factors: The governmental net assets for FY 2003 were $29,053,630 compared to $42,605,478 in FY 2002 a decrease of $13,551,848. This was due to three State financing projects paying off and the subsequent liquidation of the funds. Business-type FY 2003 net assets were $120,290,406 compared to $109,989,294 in FY 2002 an increase of $10,301,112. This was due primarily to increases in PPRF loan production; also the other Business-type funds experienced growth across the board.

Statement of Activities (see table 2)
The Governmental and Business-type activities FY 2003 Program revenue was $27,195,280 down from $59,238,182 in FY 2002, a decrease of $32,042,902. This was due entirely to the receipt of two non recurring appropriations totaling $32 million in FY 2002. The Governmental and Business-type activities FY 2003 General Revenue and Transfers were $49,325,234 down from $49,663,239 in FY 2002, a decrease of $338,005

The change in net assets was a decrease of $3,250,737 in fiscal year 2003, due to the reasons explained above. The total FY 2003 cost of all NMFA programs was $79,771,251 compared to $62,015,678, an increase of $17,755,573. The $7,631,463 increase of Governmental Type expenses was due entirely to debt service expenditures related to the accelerated pay off of the variable rate TRIMS project. The $10,124,110 increase of Business-type expenses was due to a number of factors, namely, increases in interest debt service related expenses ($2,000,000), grant expenses ($1,200,000),transfers to other agencies ($6,000,000) and overall growth of NMFA programs as evidenced by the increase of gross assets below.

The Authority's gross assets increased from $558,666,492 in FY 2002 to $622,798,012 in FY 2003 an increase of $64,131,520.

NMFA Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the NMFA and the NMFA provides staff support to the Water Trust Board.

Authority's core program, the PPRF loan program has provided financing for a variety of infrastructure and equipment projects. In FY 2003, the PPRF program made approximately seventy loans totaling approximately $70.7 million compared to forty loans totaling $31 million in FY 2002.

In cooperation with the New Mexico Environment Department (NMED), the NMFA administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY 2003, the DWRLF made three loans totaling $5.9 compared to seven loans totaling $6.9 million in FY 2002. The FY 2003 binding commitments numbered four, approximating $16.5 million compared to three totaling approximately $2.9 million in FY 2002.

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2003, the NMFA Board has approved thirteen loans totaling $6.65 million.

Through June 2003, the NMFA has issued $290 million in bonds to provide all or part of the financing for several state projects, including a Worker's Compensation Administration Building, UNM Cancer Research Center, Administrative Office of the Courts automation project, an Insurance Department automation project, an information system upgrade for the Taxation and Revenue Department, the State Highway and Transportation's Corridor 44 and Highway 70 projects, the State Library Renovation project, and the Bernalillo Metropolitan Courthouse project.

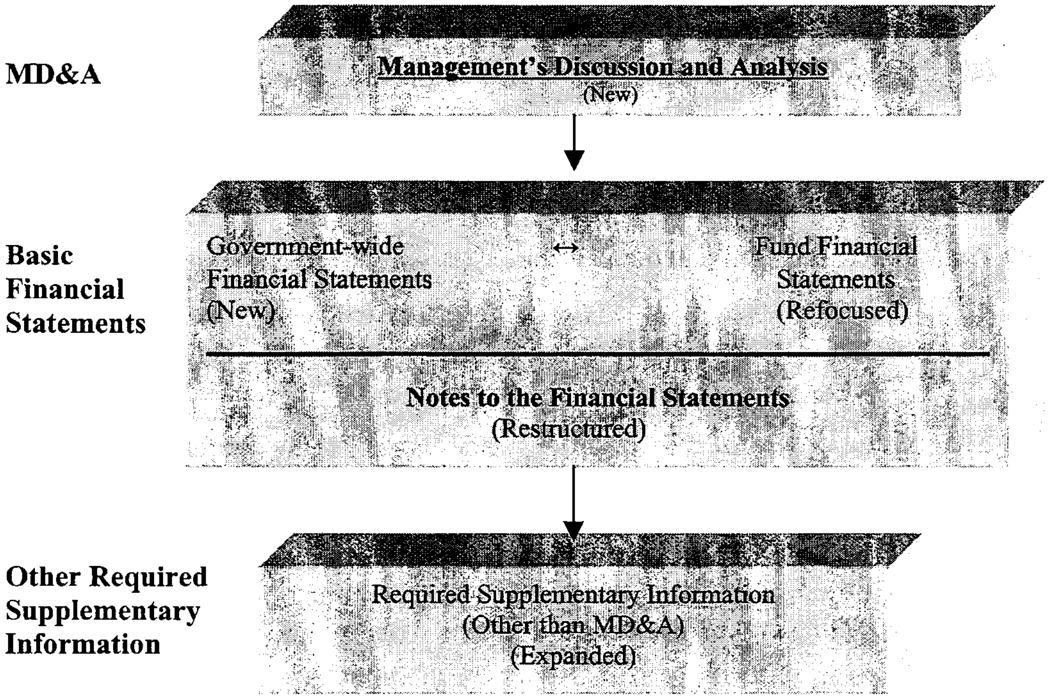
The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY 2003, 40 grants closed for a total of $20,452,613 compared to 25 grants totaling $3,702,584 in FY 2002.

The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework and created a fifteen-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the NMFA, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The NMFA is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2002, House Bill 88, as amended, appropriated $22.5 million for identified regional projects as well as an appropriation for future use to the Water Project Fund in FY 2003. In FY 2003, the Water Trust Board reviewed 65 applications for funding from the $10 million appropriation for General Water Project Finance Act Provisions.

USING THIS ANNUAL REPORT

With the implementation of GASB #34 last year, the presentation of the financial statements is significantly different from the previous general-purpose financial statements. The primary focus in State government's financial statements for the last 20 years (summarized fund type information) has been discarded with implementation of GASB #34. The new focus is on both the NMFA (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the NMFA is an instrumentality of the State of New Mexico Government, the primary government focus in this financial report is the NMFA and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions, or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the NMFA. Both statements distinguish between the governmental and business-type activities of the NMFA. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The government-wide financials statements of the NMFA are divided into two categories:

- Governmental Activities – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the NMFA are the, TRIMS Automation Project, Metro Court Financing, Highway 44 Financing, Federal Highway Forest Road Financing, UNM Cancer Center Financing, Water/Wastewater Grant Fund, Water Trust Board, Water Planning Fund, Workers Compensation Building Financing, State Capitol Improvement Financing, Equipment COP Financings, and the Insurance Department Financings.

- Business-type Activities – The Authority's revolving fund programs and operating fund are included in the Business-type activities. The funds included in the Business-type activities for the NMFA are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the State Building Purchase Fund, and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Governmental Fund Types:

- Special Revenue funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authorities funds classified as Special Revenue Funds are the UNM Cancer Center Bond Fund, the Water Waste/water Grant Fund, the Water Planning Fund, and the Water Projects Fund (accounted for within the Water Trust Fund).

- Debt Service funds – The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs. The funds classified as debt service funds are the TRIMS Project, the Metro Court Financing Fund, the Highway 44 Financing Fund, the Forest Highway Forest Road Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund, The Equipment Certificate of Participation (COP) Funds, and the Insurance Department Financing Fund.

Proprietary Fund Types:

- Enterprise funds – Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the costs of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The funds classified as proprietary funds are, the General Operating fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund, and the State Office Building Financing Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Infrastructure Assets

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The NMFA does not own a material interest in any infrastructure assets and therefore is not required to implement this portion of GASB #34.

Budgetary Comparisons

In addition to MD&A, GASB #34 requires budgetary comparison schedules for the general fund and for each major special revenue fund and enterprise fund that has an adopted annual budget. The Authority does not have any legally adopted budgets and therefore does not present any budgetary statements.

FINANCIAL ANALYSIS OF THE NMFA AS A WHOLE

Net Assets: Table 1 summarizes the Authority's net assets for the fiscal years ending June 30, 2003 and 2002 on a comparative basis. FY 2003 net assets for Governmental Activities and Business-type Activities were $29,053,630 and $120,290,406 respectively. Total NMFA net assets for fiscal year 2003 are $149,344,036. However, most of those net assets are restricted as to the purposes they can be used for. The restricted net assets of Governmental Activities are $29,053,630 at the end of the fiscal year. This amount consists of amounts necessary for debt service on outstanding bond issues. In the Business-type activities, the unrestricted amount of $17,706 is the unrestricted balance of the PPRF Fund and can be used only for the stated purposes of that fund.

Table 1
The NMFA Statement of Net Assets

	Governmental Activities FY 2002	Governmental Activities FY 2003	Business-type Activities FY 2002	Business-type Activities FY 2003	**Total FY 2002**	**Total FY 2003**
ASSETS AND OTHER DEBITS						
Current and Other Assets	$ 139,790,966	122,223,030	123,388,015	172,454,211	**263,178,981**	**294,677,241**
Capital and Non-Current Assets	117,498,390	111,867,524	177,989,121	216,253,247	**295,487,511**	**328,120,771**
Total Assets	**$257,289,356**	**$234,090,554**	**$301,377,136**	**$388,707,458**	**$558,666,492**	**$622,798,012**
LIABILITIES						
Current Liabilities	$ 29,010,052	31,094,603	54,520,358	68,511,006	**83,530,410**	**99,605,609**
Long-Term Liabilities	185,673,826	173,942,321	136,867,484	199,906,046	**322,541,310**	**373,848,367**
Total Liabilities	**214,683,878**	**205,036,924**	**191,387,842**	**268,417,052**	**406,071,720**	**473,453,976**
NET ASSETS						
Invested in capital assets	-	-	31,684	30,056	**31,684**	**30,056**
Restricted	27,528,104	29,053,630	109,717,358	120,242,644	**137,245,462**	**149,296,274**
Unrestricted	15,077,374	-	240,252	17,706	**15,317,626**	**17,706**
Total net assets	**42,605,478**	**29,053,630**	**109,989,294**	**120,290,406**	**152,594,772**	**149,344,036**
Total liabilities and net assets	**$ 257,289,356**	**$234,090,554**	**$301,377,136**	**$388,707,458**	**$558,666,492**	**$622,798,012**

Statement of Activities: (Table 2).

Revenue

Total revenue for The NMFA as a whole in FY 2003 was $76,520,514. The Authority's revenue was generated from a number of sources.

For governmental-type activities total revenue was $39,656,690 of which tax revenues comprised 53%, operating grants and contributions comprised 5%, interest and investment income comprised 7% and charges for services and transfers 35%.

For business-type activities total revenue was $36,863,824 of which tax revenues comprised 62%, operating grants and contributions 22%, interest and investment income 7%, and charges for services and transfers 9%.

Table 2
NMFA Statement of Activities

	Governmental - type Activities (Infrastructure financing) FY 2002	Governmental - type Activities (Infrastructure financing) FY 2003	Business-type Activities (Infrastructure financing) FY 2002	Business-type Activities (Infrastructure financing) FY 2003	Total FY 2002	Total FY 2003
Expenses	$45,577,075	$53,208,538	$16,438,603	$26,562,713	**$62,015,678**	**$79,771,251**
Total program revenues	38,145,176	7,330,051	21,093,006	19,865,229	**59,238,182**	**27,195,280**
Changes in net assets:						
Net (expense) revenue	(7,431,899)	(45,878,487)	4,654,403	(6,697,484)	**(2,777,496)**	**(52,575,971)**
Total general revenues and transfers	26,498,945	32,326,639	23,164,294	16,998,595	**49,663,239**	**49,325,234**
Change in net assets	19,067,046	(13,551,848)	27,818,697	10,301,111	**46,885,743**	**(3,250,737)**
Net assets - beginning,	23,538,432	42,605,478	82,170,597	109,989,294	**105,709,029**	**152,594,772**
Net assets – ending	**$42,605,478**	**$29,053,630**	**$109,989,294**	**$120,290,405**	**$152,594,772**	**$149,344,035**

Expenditures

Total expenditures for The NMFA as a whole in FY 2003 were $79,771,251.

The Authority's total expenditures for government-type activities during the fiscal year were $53,208,538. Approximately 1% of the expenditures are in the area of operating costs which include salaries and benefits, professional services, travel, etc. Grant expenses comprise 18% of the total, debt service expenditures 71%, and transfers to other state agencies 10%.

Expenditures for business-type activities totaled $26,562,713. The majority of expenditures for business-type activities were for debt service at 40%, and transfers to other agencies amounted to 42%. Grant expenses amounted to 8%. With in the operating cost category salaries and benefits comprised 4%, all other operating costs such as repairs and maintenance, travel, supplies etc. comprised 6% of total expenditures.

Budgetary Highlights

For FY 2003 the NMFA completed the year with a favorable variance of $329,794 for its combined total of all budgeted funds (please see Table 3).

Table 3

Total of all Budgeted Program Funds

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Revenues:			
Administrative Fees	$ 757,874	$ 730,592	$ (27,282)
Setaside Revenue	229,734	42,713	(187,021)
Reimbursement Revenue	1,255,286	1,122,114	(133,172)
Interest Income	-	4,133	4,133
Grant Revenue	-	-	-
Total Revenue	2,242,894	1,899,552	(343,342)
Operating Transfers in	173,748	187,296	13,548
Reimbursement Transfers in	-	-	-
Total Revenue and transfers in	$ 2,416,642	$ 2,086,848	$ (329,794)

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Expenditures:			
Current:			
Personnel Services	$ 947,581	$ 907,513	$ 40,068
Employee Benefits	405,105	311,868	93,237
In-State Travel	60,739	37,175	23,564
Office Supplies	32,599	32,418	181
Contractual Services	636,748	486,916	149,832
Operating Costs	271,594	241,413	30,181
Administrative Fees	-	31,190	(31,190)
Out-of-State Travel	27,125	12,784	14,341
Total Current Expenditures	2,381,491	2,061,277	320,214
Capital Outlay	35,152	25,571	9,581
Total Expenditures	$ 2,416,643	$ 2,086,848	$ 329,794

Capital Assets and Debt Administration

At the end of fiscal year 2003, the NMFA has invested a total of $30,056 net of depreciation in business-type activities; there has been no investment in fixed assets for government-type activities. During FY 2003 capital outlay expenditures totaled $25,571. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 8 to the financial statements.

GASB Statement #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The NMFA does not own any infrastructure assets.

Long-Term Debt

The Authority's long term debt is all outstanding bond issues related to the various programs administered by the NMFA. At the end of fiscal year 2003, the total amount outstanding was $385.6 million. More detailed information about the Authority's long-term debt is presented in Note 9 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year's ended June 30, 2003 and 2002.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2004 budget accommodates the Authority's administration of seven programs paid from different sources of revenue:

- General operations of the NMFA, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board funded from the Water Project Fund;
- Water and Wastewater Grant Fund (W/WWGF)program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) Program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF.
- The Economic Development Fund, funded from administration fees and cigarette tax revenue (new).

The Authority's primary operating budget for FY 2004 is $2,749,443, compared to the FY 2003 budget of $2,376,425, a 16% increase.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

New Mexico Finance NMFA
409 St. Michael's Drive
Santa Fe, New Mexico 87505

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 94,360,012	96,526,082	190,886,094
Receivables			
Taxes	2,853,652	2,023,830	4,877,482
Interest	50,306	1,574,005	1,624,311
Grant and other	8,626	2,409,654	2,418,280
Loans, net of allowance	108,401,445	213,772,550	322,173,995
Securities	-	14,609,637	14,609,637
Due from other funds	16,004	121,229	137,233
Due from other state agencies	2,164,542	-	2,164,542
Cash and cash equivalents - restricted	22,769,888	55,189,774	77,959,662
Capital assets			
Depreciable property and equipment, net	-	30,056	30,056
Deferred issuance costs	3,466,079	2,445,331	5,911,410
Other assets	-	5,310	5,310
Total assets	$ 234,090,554	388,707,458	622,798,012
LIABILITIES			
Accounts payable and accrued liabilities	2,345,148	813,675	3,158,823
Accrued payroll, fringe benefits and compensated absences	10,348	92,020	102,368
Accrued interest payable	2,210,648	877,332	3,087,980
Debt service payable	141,626	16,245,229	16,386,855
Long-term notes payable	2,000,000	-	2,000,000
Funds held for others	16,013,648	32,624,783	48,638,431
Due to other state agencies	35,525	2,538,394	2,573,919
Due to other funds	135,660	1,573	137,233
Bonds payable, current	10,202,000	16,353,305	26,555,305
Bonds payable, long term	171,942,321	198,870,741	370,813,062
Total liabilities	205,036,924	268,417,052	473,453,976
NET ASSETS			
Invested in capital assets	-	30,056	30,056
Restricted for			
Debt service	11,670,331	95,128,155	106,798,486
Program funds	17,383,299	25,114,489	42,497,788
Unrestricted	-	17,706	17,706
Total net assets	29,053,630	120,290,406	149,344,036
Total liabilities and net assets	$ 234,090,554	388,707,458	622,798,012

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

	Governmental - Activities	Business-type Activities	Total
Expenses - Capital Financing	$ 53,208,538	26,562,713	79,771,251
Program revenues			
Charges for services	5,260,078	11,111,914	16,371,992
Operating grants and contributions	2,069,973	8,753,315	10,823,288
Total program revenues	7,330,051	19,865,229	27,195,280
Net (expense) revenue	(45,878,487)	(6,697,484)	(52,575,971)
General revenues			
Taxes			
Governmental gross receipts and gross receipts taxes	21,202,222	23,181,295	44,383,517
Investment earnings	2,462,941	2,478,776	4,941,717
Total general revenues	23,665,163	25,660,071	49,325,234
Transfers	8,661,476	(8,661,476)	-
Change in net assets	(13,551,848)	10,301,111	(3,250,737)
Net assets - beginning	42,605,478	109,989,295	152,594,773
Net assets - ending	$ 29,053,630	120,290,406	149,344,036

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

		Administration Fee Revenue Program (TRIMS Project)	Metro Court Financing Fund	Highway 44 Financing Fund
ASSETS				
Cash and cash equivalents	$	19,794	20,192,333	-
Tax revenue receivable		-	460,985	-
Other assets		-	-	-
Due from other funds		-	-	-
Due from other state agencies		-	-	2,164,542
Loans receivable		-	-	90,335,000
		19,794	20,653,318	92,499,542
Restricted Assets				
Cash and cash equivalents held for others by trustee				
Debt service		-	-	-
Bond reserve		-	4,704,653	26,516
Expense fund		-	-	40,443
Program - Grant proceeds for other state agency		-	-	2,550,488
Program - Bond proceeds		-	-	-
Total restricted assets		-	4,704,653	2,617,447
Total assets	$	19,794	25,357,971	95,116,989
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$	-	-	2,204,985
Debt service payable		-	111,140	26,516
Notes payable		-	-	-
Funds held for others		-	-	2,550,488
Due to other state agencies		-	-	-
Due to other funds		-	72,375	-
Total liabilities		-	183,515	4,781,989
Fund balances - reserved for				
Debt service		19,794	25,174,456	90,335,000
Special revenue funds		-	-	-
Total fund balances		19,794	25,174,456	90,335,000
Total liabilities and fund balances	$	19,794	25,357,971	95,116,989

See Notes to Financial Statements.

Federal Highway Forest Road Financing Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
$ -	50,437,186	23,710,699	94,360,012
-	-	2,392,667	2,853,652
-	1,384	7,242	8,626
-	15,491	513	16,004
-	-	-	2,164,542
18,066,445	-	-	108,401,445
18,066,445	50,454,061	26,111,121	207,804,281
-	-	32,452	32,452
3,970	-	532,196	5,267,335
1,002	-	45,357	86,802
-	-	105,429	2,655,917
13,463,160	-	1,264,222	14,727,382
13,468,132	-	1,979,656	22,769,888
		-	
$ 31,534,577	50,454,061	28,090,777	230,574,169
$ 41,002	15,381	94,128	2,355,496
3,970	-	-	141,626
-	-	2,000,000	2,000,000
13,463,160	-	-	16,013,648
-	-	35,525	35,525
-	31,258	32,027	135,660
13,508,132	46,639	2,161,680	20,681,955
18,026,445	-	4,044,758	137,600,453
-	50,407,422	21,884,339	72,291,761
18,026,445	50,407,422	25,929,097	209,892,214
$ 31,534,577	50,454,061	28,090,777	230,574,169

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NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

Total fund balances - governmental funds (Governmental funds balance sheet)	$ 209,892,214
Amounts reported for governmental activities in the statement of net assets are different because:	
Bond deferred issuance costs	3,466,079
Accrued interest payable	(2,210,648)
Interest receivable	50,306
Bonds payable	(180,057,000)
Bonds premium and discount, net	(2,087,321)
Net assets of governmental activities (Statement of net assets)	$ 29,053,630

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Administration Fee Revenue Program (TRIMS Project)	Metro Court Financing Fund	Highway 44 Financing Fund
Revenues			
Tax revenue	$ 8,968,159	5,416,914	-
Grant revenue	-	-	-
Interest on loans	-	44,705	4,357,336
Interest on investments	285,682	527,757	-
Other revenue	-	-	-
Total revenues	9,253,841	5,989,376	4,357,336
Expenditures			
Administrative fee	23,578	130,916	-
Professional services	45,764	47,542	-
Salaries and fringe benefits	-	-	-
In-state travel	-	-	-
Maintenance and repairs	-	-	-
Operating costs	-	-	-
Grant expense	-	-	-
Total current expenditures	69,342	178,458	-
Debt service			
Principal payments	19,099,600	1,810,000	5,050,000
Interest expense	153,775	2,642,876	4,357,336
Bond issuance costs	-	65,071	-
Total debt service expenditures	19,253,375	4,517,947	9,407,336
Excess (deficiency) of revenues over expenditures	(10,068,876)	1,292,971	(5,050,000)
Other Financing Sources (Uses)			
Bond proceeds	-	24,900,000	-
Transfers (to) from other funds	-	2,825,298	-
Transfers to other state agencies	(7,081,226)	(24,078,978)	-
Total other financing sources (uses)	(7,081,226)	3,646,320	-
Net change in fund balance	(17,150,102)	4,939,291	(5,050,000)
Fund balances - beginning	17,169,896	20,235,165	95,385,000
Fund balances - ending	$ 19,794	25,174,456	90,335,000

See Notes to Financial Statements.

Federal Highway Forest Road Financing Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
$ -	-	6,817,149	21,202,222
-	-	2,069,973	2,069,973
855,589	-	-	5,257,630
-	1,086,398	563,104	2,462,941
-	-	161,624	161,624
855,589	1,086,398	9,611,850	31,154,390
-	-	37,213	191,707
-	158,110	122,905	374,321
-	84,790	122,420	207,210
-	4,958	9,826	14,784
-	1,402	2,143	3,545
-	33,673	37,960	71,633
-	8,163,605	1,760,028	9,923,633
-	8,446,538	2,092,495	10,786,833
705,000	-	1,944,000	28,608,600
855,589	-	1,230,614	9,240,190
-	-	-	65,071
1,560,589	-	3,174,614	37,913,861
(705,000)	(7,360,140)	4,344,741	(17,546,304)
-	-	-	24,900,000
-	4,966,705	869,473	8,661,476
-	-	(2,203,439)	(33,363,643)
-	4,966,705	(1,333,966)	197,833
(705,000)	(2,393,435)	3,010,775	(17,348,471)
18,731,445	52,800,857	22,918,322	227,240,685
$ 18,026,445	50,407,422	25,929,097	209,892,214

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NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

Total fund balances - governmental funds (Governmental funds statement of revenues, expenditures and changes in fund balance)	$	(17,348,471)
Amounts reported for governmental activities in the statement of net activities are different because		
Issuance of bonds		(24,900,000)
Bond debt service principal payments		28,608,600
Change from prior year in:		
Amortization of bond issuance costs		(25,078)
Amortization of net bond premium		16,951
Interest expense on long-term debt is recognized when paid under the modified accrual basis of accounting		93,702
Interest receivable more than 60 days after year end does not meet the criteria specified for measurable and available under the modified accrual basis of accounting.		2,448
Change in net assets of governmental activities (Statement of activities)	$	(13,551,848)

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	DWRLF
ASSETS			
Cash and cash equivalents	$ 2,121,357	60,847,660	607,204
Receivables			
Taxes	-	1,523,830	-
Interest	-	1,485,851	88,154
Grant and other	12,390	101,081	2,296,183
Due from other funds	47,281	73,948	-
Total current assets	2,181,028	64,032,370	2,991,541
Loans, net of allowance	-	190,332,941	18,522,305
Securities	-	14,609,637	-
Restricted assets - cash and cash equivalents	-	41,613,374	11,192,716
Capital assets			
Depreciable property and equipment, net	16,648	8,024	5,384
Deferred issuance costs, net	-	2,046,897	-
Other assets	5,310	-	-
Total assets	$ 2,202,986	312,643,243	32,711,946
LIABILITIES			
Accounts payable and other liabilities	$ 40,762	293,599	157,746
Accrued payroll, fringe benefits and compensated absences	77,296	6,069	8,655
Accrued interest payable	-	744,959	-
Debt service payable	-	15,175,975	1,053,074
Funds held for others	-	22,641,109	9,966,700
Due to other state agencies	2,096,160	200,988	241,246
Due to other funds	-	1,573	-
Bonds payable, current	-	15,138,305	-
Total current liabilities	2,214,218	54,202,577	11,427,421
Bonds payable, long-term	-	167,193,838	-
Total liabilities	2,214,218	221,396,415	11,427,421
NET ASSETS			
Invested in capital assets	16,648	8,024	5,384
Restricted for:			
Debt service	(27,880)	68,618,265	21,130,962
Program funds	-	22,602,833	148,179
Unrestricted	-	17,706	-
Total net assets	(11,232)	91,246,828	21,284,525
Total liabilities and net assets	$ 2,202,986	312,643,243	32,711,946

See Notes to Financial Statements.

Primary Care Capital Fund	State Building Purchase Fund	Totals
$ -	32,949,861	96,526,082
-	500,000	2,023,830
-	-	1,574,005
-	-	2,409,654
-	-	121,229
-	33,449,861	102,654,800
4,917,304	-	213,772,550
-	-	14,609,637
2,383,684	-	55,189,774
-	-	30,056
-	398,434	2,445,331
-	-	5,310
$ 7,300,988	33,848,295	388,707,458
$ -	321,568	813,675
-	-	92,020
-	132,373	877,332
16,180	-	16,245,229
16,974	-	32,624,783
-	-	2,538,394
-	-	1,573
-	1,215,000	16,353,305
33,154	1,668,941	69,546,311
-	31,676,903	198,870,741
33,154	33,345,844	268,417,052
-	-	30,056
4,904,357	502,451	95,128,155
2,363,477	-	25,114,489
-	-	17,706
7,267,834	502,451	120,290,406
$ 7,300,988	33,848,295	388,707,458

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	DWRLF
Interest earnings			
Interest on loans	$ -	9,628,241	352,267
Interest on investments	4,133	1,243,754	199,748
Total interest earnings	4,133	10,871,995	552,015
Interest expense			
Debt service - interest expense	-	7,356,984	-
Net interest earnings	4,133	3,515,011	552,015
Provision for loan losses	-	39,497	-
Net interest earnings after provision for loan losses	4,133	3,475,514	552,015
Non-interest earnings			
Tax revenue	-	17,181,295	-
Federal grant revenue	-	-	2,813,365
Revolving loans grant revenue	-	-	5,939,950
Administrative fees	699,401	400,608	31,191
Total non-interest earnings	699,401	17,581,903	8,784,506
Non-interest expense			
Grant expense	-	2,798,896	-
Bond issuance costs	-	1,424,898	-
Administrative fee	-	400,608	31,191
Professional services	132,445	741,140	38,478
Salaries and fringe benefits	730,925	218,292	85,470
Technical set-aside expense	-	-	149,453
In-state travel	13,236	6,265	2,891
Out of state travel	4,611	-	7,159
Maintenance and repairs	12,472	3,182	1,407
Supplies	10,343	3,446	3,881
Operating costs	133,644	34,101	15,076
Depreciation	9,837	4,292	3,868
Total non-interest expense	1,047,513	5,635,120	338,874
Total non-interest earnings (expense) before transfers	(348,112)	11,946,783	8,445,632
Transfers			
Transfers in (out)	187,296	(8,848,772)	-
Transfers from (to) other state agencies	-	-	(2,004,212)
Total transfers	187,296	(8,848,772)	(2,004,212)
Change in net assets	(156,683)	6,573,525	6,993,435
Total net assets - beginning	145,451	84,673,303	14,291,090
Total net assets - ending	$ (11,232)	91,246,828	21,284,525

See Notes to Financial Statements.

Primary Care Capital Fund	State Building Purchase Fund	Totals
$ 206	-	9,980,714
249,067	782,074	2,478,776
249,273	782,074	12,459,490
-	1,617,690	8,974,674
249,273	(835,616)	3,484,816
-	-	39,497
249,273	(835,616)	3,445,319
-	6,000,000	23,181,295
-	-	2,813,365
-	-	5,939,950
-	-	1,131,200
-	6,000,000	33,065,810
-	-	2,798,896
-	22,238	1,447,136
-	50,723	482,522
-	5,756	917,819
-	-	1,034,687
-	-	149,453
-	84	22,476
-	-	11,770
-	-	17,061
-	-	17,670
-	-	182,821
-	-	17,997
-	78,801	7,100,308
-	5,921,199	25,965,502
-	-	(8,661,476)
-	(8,444,022)	(10,448,234)
-	(8,444,022)	(19,109,710)
249,273	(3,358,439)	10,301,111
7,018,561	3,860,890	109,989,295
$ 7,267,834	502,451	120,290,406

NEW MEXICO FINANCE AUTHORITY
COMBINED STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2003

	Operating Fund	Public Project Revolving Funds	Drinking Water Fund
Cash Flows From Operating Activities			
Cash paid for employee services	$ (715,749)	(217,271)	(84,011)
Cash paid to vendors for services	(281,610)	(641,169)	(224,282)
Bond issuance costs paid	-	(841,800)	-
Interest expense paid	-	(7,080,441)	-
Grants awarded	-	(2,798,896)	-
Tax revenue	-	16,779,028	-
Cash received from federal government for revolving loans	-	-	5,939,950
Interest income received	4,133	10,647,810	514,927
Administrative fees received	797,450	400,608	31,191
Net cash (used) provided by operating activities	(195,776)	16,247,869	6,177,775
Cash Flows From Non-Capital Financing Activities			
Operating transfers	187,296	(8,848,772)	-
Cash paid to subrecipients for services	-	-	(2,004,212)
Federal grant revenue received	-	-	1,438,252
Cash provided by funds held for others	1,696,917	599,858	921,839
Net cash provided (used) by non capital financing activities	1,884,213	(8,248,914)	355,879
Cash Flows From Capital and Related Financing Activities			
Securities	-	874,225	-
Loans funded	-	(63,708,628)	(5,939,950)
Loan payments received	-	14,399,569	523,741
Bonds issued	-	95,555,000	-
Payment of bonds	-	(16,019,936)	-
Fixed asset purchases	(7,789)	(6,111)	(2,469)
Net cash provided (used) by capital and related financing activities	(7,789)	31,094,119	(5,418,678)
Net increase (decrease) in cash and cash equivalents	1,680,648	39,093,074	1,114,976
Cash and cash equivalents - beginning of year	440,709	63,367,960	10,684,944
Cash and cash equivalents - end of year	$ 2,121,357	102,461,034	11,799,920
Reconciliation of operating income (loss) to net cash used by operating activities - operating income	$ (156,683)	6,573,525	6,993,435
Adjustments to operating income			
Depreciation and amortization	9,837	587,390	3,868
Bad debt expense	-	39,497	-
Net transfers	(187,296)	8,843,984	-
(Increase) decrease in prepaids and receivables	95,145	(43,354)	(846,241)
Increase (decrease) in payables and other accrued liabilities	43,221	246,827	26,713
Net cash (used) provided by operating activities	$ (195,776)	16,247,869	6,177,775

See Notes to Financial Statements.

Primary Care Fund	State Building Purchase Fund	Totals
$ -	-	(1,017,031)
-	(56,563)	(1,203,624)
-	-	(841,800)
-	(1,621,573)	(8,702,014)
-	-	(2,798,896)
-	6,000,000	22,779,028
-	-	5,939,950
249,273	782,074	12,198,217
-	-	1,229,249
249,273	5,103,938	27,583,079
-	-	(8,661,476)
-	-	(2,004,212)
-	-	1,438,252
(23,929)	(10,923,382)	(7,728,697)
(23,929)	(10,923,382)	(16,956,133)
-	-	874,225
-	-	(69,648,578)
333,723	-	15,257,033
-	-	95,555,000
-	(1,178,502)	(17,198,438)
-		(16,369)
333,723	(1,178,502)	24,822,873
559,067	(6,997,946)	35,449,819
1,824,617	39,947,807	116,266,037
$ 2,383,684	32,949,861	151,715,856
$ 249,273	(3,358,439)	10,301,111
-	22,238	623,333
-	-	39,497
-	8,444,022	17,100,710
-	-	(794,450)
-	(3,883)	312,878
$ 249,273	5,103,938	27,583,079

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NOTE 1. ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act), is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer, the Secretary of the Department of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, the Secretary of the Environment Department, the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, shall appoint to the Authority the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state except as specifically provided in the New Mexico Finance Authority Act.

The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

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.

The Authority is a governmental entity in accordance with Governmental Accounting Standard Board Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NOTE 1. ORGANIZATION (CONTINUED)

The financial reporting entity as defined by GASB Statement 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. The Authority is, however, considered to be a component unit of the State of New Mexico. The Authority does not have any component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Authority includes only one function (infrastructure financing).

The net cost (by function or business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Authority does not currently employ indirect cost allocation systems.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals on the business-type activities (Enterprise) fund statements match the business type activities column presented in the government-wide statements, since there are no reconciling items.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

The financial transactions of the Authority are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB Statement 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The Authority uses the following fund types:

Governmental Fund Types. The focus of governmental fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority.

Special Revenue Funds. The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Building Program-Cigarette Tax. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act in an amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds or any payments for refunding or redemption premiums on the bonds and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Water and Wastewater Project Grant Fund. This fund was created with the passage of Senate Bill 662 during the 1999 Legislative Session. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1 NMSA 1978, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project and to pay administrative costs of the water and wastewater project grant program.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any unexpended or unencumbered balance remaining at the end of the fiscal year shall not revert to the State's general fund. There was no sale of bonds made for this program for the year ended June 30, 2003.

Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 legislative session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Projects Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Water and Wastewater Planning Grant Fund The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant will not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

Emergency Drought Water Program Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

Debt Service Funds. The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administrative Fee Revenue Program (TRIMS Project). Chapter 125, Laws of New Mexico 1997 was enacted to authorize the Authority to sell up to $33,709,800 of bonds for the purpose of financing the New Mexico Taxation and Revenue Department (NMTRD) information management systems project (TRIMS Project). The TRIMS Project is an integration and updating of on-line, multi-user systems that process taxation, motor vehicle tax and fee collections, revenue distributions and information processing by the NMTRD. Revenue from NMTRD's administrative fees is pledged to repay the bonds. The Authority issued $17,440,660 of Administrative Fee Revenue Bonds Series 1997A in September 1997. The Authority issued the remaining $16,269,140 Administrative Fee Revenue Bonds Series 1999A in September 1999.

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

Highway 44 Financing Fund. Series 1998A Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 1998A Bonds were issued by the Authority to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico Highway and Transportation Department (NMSHTD), and are payable solely from the NMFA's rights to payments under a Loan Agreement between the NMFA and NMSHTD. $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds was issued on September 1, 1998. The Obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a revenue pledge, which consists of certain revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

Forest Highway Forest Road Financing Fund. Series 2001 Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 2001 Bonds were issued to finance the cost of an infrastructure project, which includes the design, reconstruction,

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21) to the extent for funding as part of the Federal Lands Highway Program and the New Mexico Statewide Transportation Improvement Program by the New Mexico State Highway and Transportation Department (NMSHTD). The Series 2001 Bonds are payable Solely from certain of the NMFA's rights to payments under a Loan Agreement (Series 2001 Loan Agreement) between the NMFA and NMSHTD. The obligations of NMSHTD under the Series 2001 Loan Agreement are payable solely from and secured by a pledge of the "Pledge Revenues," which consist of certain revenues received by or on behalf of NMSHTD pursuant to Chapters 1 and 20 of Title 12, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

Workers' Compensation Financing Fund. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the American with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint powers agreement to accomplish this purpose. $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of each calendar quarter, after all current obligations and any sinking fund requirements are met shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

State Capitol Improvement Financing Fund. The laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a State building located adjacent to the state capitol in Santa Fe known as the New Mexico state library and for relocation-associated renovations in the state capitol. $510,000 of revenue bonds were issued on May 17, 1999, and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, NMFA issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B, the proceeds of which were loaned to various governmental entities in the state.

The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance Department Financing Fund. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $1 million for the purpose of financing information and communication equipment, including computer hardware and software, for the New Mexico Department of Insurance. The Legislature imposed a three dollar ($3.00) surcharge on the annual continuation of appointment fees on approximately 60,000 insurance agents subject to the fees to provide security for the bonds. On April 18, 1996, the New Mexico Insurance Department requested the Authority to issue $525,000 of the authorized bonds for acquiring information and communication equipment. The bonds were privately placed in a transaction that closed on May 23, 1996, and the proceeds were transferred to the New Mexico Department of Insurance. The pledged revenues are paid to the Authority. Pledged revenue in excess of debt service and related expenditures may be appropriated by the Legislature to the Department of Insurance for the acquisition of information and communication equipment.

Court Automation Financing Program. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $8.5 million for the purpose of financing acquisition of court automation systems for the state court system, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. $8.5 million of court automation fee revenue bonds were issued on June 25, 1996. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provisions of the motor vehicle code involving the operation of a motor vehicle. The pledged revenues are paid to the Authority. Pledged revenues in excess of debt service and related expenditures may be appropriated by the Legislature to the Administrative Office of the Courts for the acquisition of court automation systems. The Bond was defeased during 2001.

Proprietary Fund Types. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Funds. Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs.

Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978.

Of the GGRT revenues directed to the Authority's Public Project Revolving Fund, which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater grant project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund, and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities or "leveraged" by pledging the revenue stream to the issuance of bonds and granting, or lending, the bond proceeds. All projects to be financed must be approved by the Legislature.

New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) creates the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority.

The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities.

Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and, 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.
Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health, and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority for assistance to the Department and administration of the Primary Care Capital Fund.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping, and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of (1) purchasing the National Educational Association Building on South Capitol Street in Santa Fe, New Mexico, (2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico and (3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may included the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authorities enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting. Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the proprietary financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Accrual. The enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (amounts collected within 60 days after year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

advances by the provider and deferred revenue by the recipient. The Authority was unable to reasonably estimate the amount of revenue earned but not yet received by the Taxation and Revenue Department by the June 30 year-end. As a result, the amount is not included as revenue in the financial statements.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer are invested by the New Mexico State Treasurer in the "overnight" repurchase program.

Interest is credited to the various programs based on the programs average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statues require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

Securities. The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds which are recorded at cost which approximates market value.

Loans. Loans are stated at their principal amount. Interest on loans is accrued for based on the daily principal balance outstanding except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on nonaccrual status.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses. The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors; including collateral value, past loan loss experience, current facts, and economic conditions. The allowance is based on management's estimates and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, any necessary adjustments are reported in income in the period they become known.

Property, Furniture and Equipment. Property, furniture and equipment purchased or acquired at a value of $1,000 or greater are capitalized. Property, furniture and equipment are stated at cost less accumulated depreciation. Furniture and equipment purchases with useful lives over one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years. In addition, furniture and equipment 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.

Income Taxes. The Authority is a tax exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

Accrued Compensated Absences Payable. Full-time employees are entitled to ten days annual leave with four years or less employment with the Authority. Employees with more than four years receive fifteen days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. Part-time employees accrue annual leave and sick leave on a prorated basis based on the number of hours they work. A full-time employee may receive cash payment at a rate of 50% of their hourly wage for any accrued sick leave in excess of forty hours up to a maximum of one hundred twenty hours on the first full pay period in July. An employee may accrue a maximum of 1,040 hours. Accumulated sick leave is not compensated on termination of employment unless the employees retire. Then the employee can be paid for accrued sick leave in the excess of 600 hours at 50% of their hourly wage rate, not to exceed 440 hours. Accrued compensated absences are recorded in the operating fund.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting. The Authority prepares a budget for the operations fund and for the DWRLF. Theses budgets are approved by the Authority's board but are not legally binding. The budgets are also amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the accounting on a budgetary basis and GAAP basis are that capital outlay is a budgetary expenditure and depreciation expense is not a budgetary expenditure.

Restricted Assets. Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "cash and cash equivalents held for others by the Authority" account is used to segregate bond proceeds that will be used for specific purposes as required by legislation. "Cash and cash equivalents pledged for repayment of bonds and bond expenses held by trustee" is used to report funds set aside for debt repayment, bond issuance, and other costs by the Authority.

Cash Flows. For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Discounts, Premiums and Issuance Costs. In governmental fund types, bond discounts, premiums and issuance costs are recognized in the current period. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

Fund Equity. Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets. The government-wide and business types Fund Financial Statements utilize a net asset presentation. Net Assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets which have third-party (statutory, bond covenant or granting agency) limitations on their use when there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

Use of Estimates. The preparation of the 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 amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund and Interagency Transactions. Interfund and Interagency Transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other Interfund transactions, except reimbursements and administrative fee transactions are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Interagency transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE

Funds held for other and short-term investments are held at the trustees in the name of the applicable government entity and the Authority's. The following is a reconciliation of cash and cash equivalents to the financial statements.

Cash and cash equivalents	Book Balance	Bank Balance
State Treasurer Local Government Investment Pool	$204,944,103	205,220,063
Money market accounts invested in American Performance U.S. Treasury Fund	40,749,514	40,749,514
Repurchase agreements	21,031,751	21,031,751
Wells Fargo operating accounts	2,120,388	37,914
	$268,845,756	267,039,242

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes deposits that are insured. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 represents deposits that are required by state statutes to be collateralized at a minimum level of 50%. All of the Authority's collected balances in bank accounts are invested in repurchase agreements. Deposits with the State Treasurer are not required to be categorized.

	Category			Bank	Book
	1	2	3	Balance	Balance
Wells Fargo operating accounts	$ -	37,914	-	37,914	2,120,388

The New Mexico State Treasurer's Office is responsible to ensure that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE (CONTINUED)

Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered investments, or for which securities are held by the counter party's trust department or agent in the Authority's name. The Authority does not have any Category 1 investments. The Authority does not have any Category 2 investments. Category 3 represents uninsured and unregistered investments, not held in the Authority's name. The Authority does not have Category 3 investments.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The source of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts which invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations. The Authority's investments are held by financial institutions in the Authority's name.

NOTE 4. LOANS RECEIVABLE

Loan receivable balances consist of the following at June 30, 2003:

Entity	Loan Balance
Proprietary funds	
Public Project Revolving Loan Fund	$ 191,192,098
Allowance for loan losses	(859,156)
	190,332,942
Primary Care Capital Fund	4,917,303
Drinking Water State Revolving Loan Fund	18,522,305
	213,772,550
Debt service funds	
Highway 44 Financing Fund	90,335,000
Federal Highway Forest Road Financing Fund	18,066,445
	108,401,445
	$ 322,173,995

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Public Project Revolving Loan Fund

The Public Project Revolving Fund loans receivable balance at June 30, 2003, is $191,092,096 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 72,643,725	32,234,849	104,878,574
July 1, 2008 to June 30, 2013	52,667,191	15,937,724	68,604,915
July 1, 2013 to maturity	65,881,182	15,702,846	81,584,028
	$ 191,192,098	63,875,419	255,067,517

An analysis for the allowance for loan losses is as follows:

Balance, beginning of year	$ (819,658)
Provision for loan losses	(39,498)
Balance, end of year	$ (859,156)

Management considers non-accrual loans to be impaired. As of June 30, 2003 there were no non-accrual loans. Based on management's analysis, there were no other impaired loans as of June 30, 2003.

Primary Care Capital Fund. Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 1,517,480	569,576	2,087,056
July 1, 2008 to June 30, 2013	1,811,043	366,016	2,177,059
July 1, 2013 to maturity	1,588,780	43,061	1,631,841
	$ 4,917,303	978,653	5,895,956

No allowance for uncollectible loans has been established as the primary care facilities and loan repayments are secured by applicable sources of pledged receivables.

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Drinking Water State Revolving Loan Fund. Terms for the Drinking Water State Revolving Loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 4,890,762	1,844,004	6,734,766
July 1, 2008 to June 30, 2013	5,836,390	1,258,844	7,095,234
July 1, 2013 to maturity	7,795,153	727,830	8,522,983
	$ 18,522,305	3,830,678	22,352,983

No allowance for uncollectible loans has been established as the Drinking Water Loans are secured by applicable sources of pledged receivables.

Highway 44 Financing Fund. The Highway 44 Financing Fund consists of one loan receivable with the New Mexico State Highway Department for $90,335,000 at June 30, 2003. Terms for the loan include an interest rate of 5.04%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 28,605,000	18,401,568	47,006,568
July 1, 2008 to June 30, 2013	35,690,000	11,297,392	46,987,392
July 1, 2013 to maturity	26,040,000	1,901,195	27,941,195
	$ 90,335,000	31,600,155	121,935,155

No allowance for uncollectible loans has been established as the State Highway Department is current on their payments and loan repayments are secured by applicable sources of tax revenues.

Federal Highway Forest Road Financing Fund. The Federal Highway Forest Road Financing Fund consists of one loan receivable with the New Mexico State Highway Department for $18,066,445 at June 30, 2003. Terms for the loan include an interest rate of 4.697%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end:

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 9,221,445	3,258,138	12,479,583
July 1, 2008 to June 30, 2013	8,845,000	901,635	9,746,635
July 1, 2013 to maturity	-	-	-
	$ 18,066,445	4,159,773	22,226,218

NOTE 5. SECURITIES

At June 30, 2003, securities for the Public Project Revolving Fund (PPRF) consisted of $13,428,015 Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, and 1998B), $40,923 of Jemez Springs Bonds, and $1,140,699 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resource Bonds have interest rates ranging from 3% to 5.95% with final maturity on June 1, 2017. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45% with a final maturity on May 1, 2012. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19% with final maturity on May 1, 2008. The securities are carried at cost which approximates market value.

The following is a summary of future maturity and interest to be collected based on contractual maturity of the securities after year-end.

	Principal	Interest	Total
July 1, 2003 to June 30, 2008	$ 5,012,559	3,256,843	8,269,402
July 1, 2008 to June 30, 2013	4,942,921	1,977,823	6,920,744
July 1, 2013 to maturity	4,654,157	591,087	5,245,244
	$ 14,609,637	5,825,753	20,435,390

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2003 consist of the following:

	Due To	Due From
Governmental Funds		
Water and Wastewater Grant Fund	$ 31,258	15,491
Water Trust Board	27,011	513
Metro Court	72,375	-
Emergency Drought Relief	2,462	-
Water Planning Grant	2,554	-
	135,660	16,004
Enterprise Funds		
Operations Fund	-	47,281
Public Project Revolving Fund	1,573	73,948
	1,573	121,229
	$ 137,233	137,233

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS (CONTINUED)

The transfers between funds for the year ended June 30, 2003 include a transfer from the Cigarette Tax Fund to the Operations Fund to fund the operations of the Authority in the amount of $1,811,909.

NOTE 7. DUE FROM OTHER STATE AGENCIES

A federal tax liability of $2,164,542 was recorded by the Authority to reflect a bond arbitrage tax liability related to the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1998A. The New Mexico Department of Transportation was the beneficiary of the bond proceeds and has concurred that the liability is owed. Additionally, the New Mexico Department of Transportation has agreed to satisfy the liability. The liability is reflected on the Authority's books (included in accounts payable and accrued liabilities), because the bonds are the legal obligation of the Authority.

NOTE 8. DUE TO OTHER STATE AGENCIES, GRANTS AND TRANSFERS

The following debt service funds transferred these amounts from the applicable bond proceeds to these entities for the year ended June 30, 2003:

> The Worker Compensation Financing Fund transferred $403,439 in order to rebate excess debt service funds back to the entity.
>
> The Insurance Department Financing Fund transferred $1,800,000 in order to rebate excess debt service funds back to the entity.
>
> The Administrative Fee Revenue Program Fund (TRIMS Project) transferred $7,081,226 in order to rebate excess debt service funds back to the entity. The bond issue related to this fund is paid off in fiscal year 2003.
>
> The Metro Court Financing Fund transferred $1,760,229 in order to rebate excess debt service funds back to the entity. Additionally, $18,438,949 was transferred to the Metro Court Administrator for the construction and equipping of the new Bernalillo County Metropolitan Court Building, and $3,879,800 in state legislated funds was transferred to the entity.
>
> The State Building Purchase Fund transferred $8,044,022 to the State of New Mexico general fund in order to rebate excess debt service funds collected.

NOTE 8. DUE TO OTHER STATE AGENCIES, GRANTS AND TRANSFERS (CONTINUED)

The Drinking Water Fund transferred $2,004,212 to qualified entities for technical assistance

NOTE 9. CAPITAL ASSETS

The capital asset activity for the year is as follows:

		Balance July 1, 2002	Additions	Deletions	**Balance June 30, 2003**
Enterprise Funds					
Depreciable assets					
Furniture, fixtures and equipment at historical cost	$	239,420	16,369	-	**255,789**
Net fixed					
Accumulated depreciation:					
Furniture, fixtures and equipment		(207,736)	(17,997)	-	**(225,733)**
Capital assets, net	$	31,684	(1,628)	-	**30,056**

There are no capital assets in the governmental funds.

Depreciation expense was $9,837 in the Operations Fund, $4,292 in the Public Projects Revolving Fund, and $3,868 in the DWRLF for the year ended June 30, 2003.

NOTE 10. BONDS PAYABLE

Bonds outstanding as of June 30, 2003, for the Authority's enterprise funds consist of:

Public Project Revolving Funds.

Series 1995A. In July 1995, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1995A in the aggregate principal amount of $41,230,000.

NOTE 10. BONDS PAYABLE (CONTINUED)

Series 1996A. In September 1996, the Authority issued its Public Project Revolving Fund, Series 1996A in the aggregate principal amount of $17,625,000. The proceeds of the bonds were used to make loans to numerous governmental entities and to purchase bonds from the Department of Energy, Minerals and Natural Resources. Additionally, a portion of the proceeds of the bonds was used to make a $9,000,000 grant in 1996 and a $16,000,000 grant in 1998 to the Environment Department in exchange for a pledge of the Environment Department's share of certain moneys to the Authority to repay all outstanding public project revolving fund bonds.

The Series 1995A and 1996A bonds were partially defeased with the Series 2003B Refunding issue. The non-callable portion of the bonds totaled $5,250,000 at June 30, 2003 and was transferred to the Series 2003 B Refunding issue.

Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A Bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investment securities.

Series 1999A, 1999B, 1999C, and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax-exempt) and Series 1999 and 1999D (taxable) in the aggregate amount principal amounts of $13,135,000, $3,025,000, $2,265,000, and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Loan Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish, and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

NOTE 10. BONDS PAYABLE (CONTINUED)

Series 2000B and C. On September 1, 2000 the Authority issued $7,670,000 of Public Project Revolving Fund series B and $28,850,000 series C bonds. The series 2000B and C were issued to reimburse the Public Project Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2000B and C bonds.

Series 2002A. On July 2, 2002 the Authority issued $55,610,000 of Public Projects Revolving Fund series 2002A bonds. The series 2002A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2002A bonds.

Series 2003A. On April 3, 2003 the Authority issued $39,945,000 of Public Projects Revolving Fund series 2003A bonds. The series 2003A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2003A bonds.

Series 2003B. On June 5, 2003 the Authority issued $25,370,000 of Public Projects Revolving Fund series 2003B bonds. The series 2003B were issued to (i) refund the NMFA's outstanding Public Projects Revolving Fund Revenue Bonds, Series 1995A maturing on and after June 1, 2006 and Public Projects Revolving Fund Revenue Bonds, Series 1996A maturing on and after Jun 1, 2007, and (ii) finance the costs of issuance of the Series 2003B bonds and the refunding of the Series 1995A and 1996A bonds.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds Series 2002A were issued on December 15, 2001, for the purpose of financing the costs of acquiring, constructing, equipping, and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds outstanding as of June 30, 2003, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds are for the designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

Insurance Department Financing Fund. On May 23, 1996, the Authority issued $525,000 of New Mexico Finance Authority Insurance Department Surcharge Revenue Bonds, which *was* refunded on December 1, 1998 and reissued at $400,000, to finance information and communication equipment for the New Mexico Department of Insurance. A $3 surcharge on insurance agents annual fee is the only pledged revenue source for the repayment of the bonds and is paid to the Authority.

Administrative Fee Revenue Program Fund (TRIMS Project) Series 1997A and 1999A. On September 11, 1997 and September 20, 1999, the Authority issued $17,440,660 and $16,269,140 of New Mexico Finance Authority (TRIMS Project) revenue bonds, respectively. The bonds were issued to finance an information management system to assist in tax collections to be used by the New Mexico Taxation and Revenue Department (NMTRD). The principal and interest on the bonds are payable solely from and secured solely by the pledged revenues, which include revenues from administrative fees payable to and withheld by NMTRD from collections of municipal and country local option gross receipts taxes, and administrative fees from collections of solid waste assessment fees, boat excise tax and registration fees, tax intercept payments and water conservation fees, as well as proceeds of bonds and investment earnings on the proceeds and revenues.

NOTE 10. BONDS PAYABLE (CONTINUED)

Highway 44 Financing Fund. On September 1, 1998, the Authority issued $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds. The bonds were issued to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico State Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the Authority and NMSHTD. The obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a pledge, which consist of revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The Bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

Federal Highway Forest Road Financing Fund. On February 1, 2001, the Authority issued $18,535,000 of New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds, Series 2001. The Bonds were issued for the purpose of financing the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21).

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds. Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds are being issued by the NMFA

NOTE 10. BONDS PAYABLE (CONTINUED)

for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds are being issued pursuant to the bond resolution with a lien on the Pledged Court Facilities Revenues on parity with the liens thereon of the $21,600,000 New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A and the $11,400,000 New Mexico Finance Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued 2,904,000 aggregate principal amount of its Equipment Program Certificates of participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to thirteen local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities. Total interest expense incurred on bonds in the enterprise funds and the debt service funds were $8,974,674 and $9,240,192, respectively, for the year ended June 30, 2003.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds payable balances consist of the following at June 30, 2003:

	Amount	Interest Rate	Final Maturity
Enterprise funds			
PPRF 1997A	$ 6,602,503	4.25-4.90	June 1, 2017
PPRF 1999A, B, C and D	17,604,744	3.30-6.30	June 1, 2018
PPRF 2000A	3,270,000	4.10-5.30	June 1, 2009
PPRF 2000B and C	22,279,369	4.75-5.50	June 1, 2030
PPRF 2002A	48,501,073	2.00-5.00	June 1, 2026
PPRF 2003A	39,661,202	2.00-4.75	June 1, 2032
PPRF 2003B	44,413,253	2.00-4.00	June 1, 2021
State Office Building Financing Fund	32,891,902	4.00-5.00	June 1, 2021
	215,224,046		
To be paid out of Debt Service funds			
Special Cigarette Tax Revenue Bond	1,800,000	4.80-5.25%	June 1, 2006
Workers Compensation Financing Fund	3,475,000	5.00-5.60	Sept. 1, 2016
Highway 44 Financing Fund	90,335,000	3.95-5.52	Sept. 1, 2015
State Capitol Improvement Financing Fund	7,885,000	7.00	March 15, 2015
Federal Highway Forest Road Financing Fund	17,830,000	4.75-5.50	September 1, 2011
Equipment Loan Fund	2,642,000	4.50-6.30	Various
Metro Court	56,090,000	1.65-6.25	June 15, 2025
	180,057,000		
Bond premium and discount, net on debt service funds	2,087,321		
	182,144,321		
Total	$ 397,368,367		

NOTE 10. BONDS PAYABLE (CONTINUED)

The requirements to amortize the bonds outstanding are as follows:

	Principal	Interest	Total
2004	$ 26,555,305	19,405,939	45,961,244
2005	26,940,305	18,089,893	45,030,198
2006	27,133,305	16,980,292	44,113,597
2007	26,678,305	15,200,032	41,878,337
2008	26,310,305	14,121,967	40,432,272
2009-2013	125,139,004	53,287,746	178,426,750
2014-2018	85,134,838	23,750,153	108,884,991
2019-2023	40,095,000	8,824,810	48,919,810
2024-2028	11,532,000	1,436,920	12,968,920
2029-2032	1,850,000	224,663	2,074,663
	$ 397,368,367	171,322,415	568,690,782

The bonds payable activity for the year is as follows:

	Balance July 1, 2002	Additions	Deletions	**Balance June 30, 2003**
Enterprise Funds	$136,867,484	134,400,527	(56,043,965)	**215,224,046**
Debt Service Funds	185,673,826	25,242,029	(28,771,534)	**182,144,321**
	$322,541,310	159,642,556	(84,815,499)	**397,368,367**

NOTE 11. OPERATING LEASES

The Authority is committed under various lease agreements for office space, copying equipment and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2003 amounted to approximately $127,209. Future minimum lease payments for these leases are as follows:

Year Ending June 30

2004	$ 131,649
2005	97,479
2006	7,525
	$ 236,653

NOTE 12. RETIREMENT PLAN

The Authority had established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were approximately $104,809, $91,277, and $99,700 for the years ended June 30, 2003, 2002, and 2001, respectively. Substantially all full time employees participate in this plan.

NOTE 13. CONTINGENCIES

The Authority is exposed to various risks of loss for which the Authority carries insurance (Auto; Employee Fidelity Bond; General Liability, Civil Rights; Property; and Worker's Compensation) with the State of New Mexico Risk Management Division and with private insurance companies.

The Authority is not subject to any legal proceedings, claims or liabilities at June 30, 2003.

NOTE 14. COMPENSATED ABSENCES

During the year ended June 30, 2003, the following changes occurred in the compensated absences liabilities:

Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003
$ 82,966	59,928	40,526	102,368

The portion of compensated absences due after one year is not material, and therefore, presented separately.

NOTE 15. SUBSEQUENT EVENTS

After June 30, 2003, the Authority issued the following PPRF Direct Loans, Federal Drinking Water Loans, Water Wastewater Grants, Planning Fund Grants, and Primary Care Loans:

	Closing Date	Amount
PPRF Cash Loans		
Taos County	7/8/2003	$ 1,830,000
Town of Red River	7/11/2003	166,667
Village of Cimarron	7/11/2003	184,501
Otero County	7/11/2003	387,487
Guadalupe County	7/11/2003	47,892
City of Texico	7/11/2003	221,094
Taos County	8/1/2003	331,701
Quay County	8/1/2003	34,783
Quay County	8/1/2003	91,112
Hidalgo County	8/15/2003	126,170
Hidalgo County	8/15/2003	72,339
Sierra County	8/15/2003	276,840
Sierra County	8/15/2003	66,550
Silver City	8/15/2003	385,147
Village of Ruidoso	8/15/2003	175,000
Sierra County	8/15/2003	276,840
Village of Angel Fire (Interim)	8/15/2003	39,500
Mora County (Interim)	8/22/2003	30,000
San Miguel County	8/29/2003	2,182,687
San Miguel County	8/29/2003	250,000
NM State University	9/5/2003	6,977,099
Eddy County (Interim)	9/12/2003	169,750
City of Grants	9/19/2003	1,495,000
City of Grants	9/19/2003	1,060,000
Carrizozo Municipal School District	9/26/2003	300,000
Tucumcari Municipal School District	9/26/2003	1,090,000
Village of Wagon Mound (Interim)	10/17/2003	75,000
Total PPRF Loans		$ 18,343,159
Federal Drinking Water Loans		
Northstar DWC & MSWC	8/15/2003	$ 1,779,798
Planning Fund Grants		
Desert Sands MDWCA	8/29/2003	$ 25,000
Pecan Park MDWCA	10/17/2003	15,400
Total Planning Fund Grants		$ 40,400

NOTE 15. SUBSEQUENT EVENTS (CONTINUED)

	Closing Date	Amount
Primary Care Loans		
Hidalgo Medical Center	8/27/2003	$ 1,100,000
Water Wastewater Grants		
City of Las Vegas	7/11/2003	$ 400,000
City of Belen	8/15/2003	3,490,132
Village of Canada De Los Alamos	8/22/2003	400,000
Green Ridge MDWCA	9/5/2003	400,000
La Cueva MDWCA	9/19/2003	161,600
Tierra Amarilla MDWA	9/26/2003	711,000
Town of Mountainair	10/3/2003	92,700
Dixon MDWCA	10/3/2003	300,600
Upper Canoncitos MDWCA	10/10/2003	270,000
		$ 6,226,032

NEW MEXICO FINANCE AUTHORITY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2003

	Workers' Compensation Financing Fund	Insurance Department Financing Fund	Court Automation Financing Fund	State Capitol Improvement Financing Fund
ASSETS				
Cash and cash equivalents	$ 545,475	604,880	32,498	342,853
Tax revenue receivable	191,239	77,805	-	-
Other assets	-	-	-	-
Due from other funds	-	-	-	-
Due from other state agencies				
Loans receivable	-	-	-	-
	736,714	682,685	32,498	342,853
Restricted Assets				
Cash and cash equivalents held for others by trustee				
Debt service	-	-	-	-
Bond reserve	148,924	-	-	-
Expense fund	-	-	-	-
Program - Grant proceeds for other state agency	14	-	1,177	4,126
Program - Bond proceeds	361,900	-	-	-
Total restricted assets	510,838	-	1,177	4,126
Total assets	$ 1,247,552	682,685	33,675	346,979
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$ -	-	-	80,263
Debt service payable	-	-	-	-
Notes payable	-	-	-	-
Funds held for others	-	-	-	-
Due to other state agencies	-	9,047	26,478	-
Due to other funds	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	-	9,047	26,478	80,263
Fund balances (deficit) - reserved for				
Debt service	1,247,552	673,638	7,197	266,716
Special revenue funds				
Total fund balances	1,247,552	673,638	7,197	266,716
Total liabilities and fund balances	$ 1,247,552	682,685	33,675	346,979

See Notes to Financial Statements.

Equipment Loan Fund	State Building Program Cigarette Tax	Water Project Fund	Emergency Drought Relief	Water Planning Grant	Other Governmental Funds
$ -	3,154,698	17,726,436	298,680	1,005,179	23,710,699
1,771,846	351,777	-	-	-	2,392,667
-	-	7,081	161	-	7,242
-	-	513	-	-	513
	-	-	-	-	-
-	-	-	-	-	-
1,771,846	3,506,475	17,734,030	298,841	1,005,179	26,111,121
32,452	-	-	-	-	32,452
-	383,272	-	-	-	532,196
45,357	-	-	-	-	45,357
-	100,112	-	-	-	105,429
-	902,322	-	-	-	1,264,222
77,809	1,385,706	-	-	-	1,979,656
					-
$ 1,849,655	4,892,181	17,734,030	298,841	1,005,179	28,090,777
$ -	-	9,657	1,774	2,434	94,128
-	-	-	-	-	-
-	2,000,000	-	-	-	2,000,000
-	-	-	-	-	-
-	-	-	-	-	35,525
-	-	27,011	2,462	2,554	32,027
-	-	-	-	-	-
-	2,000,000	36,668	4,236	4,988	2,161,680
1,849,655	-	-	-	-	4,044,758
	2,892,181	17,697,362	294,605	1,000,191	21,884,339
1,849,655	2,892,181	17,697,362	294,605	1,000,191	25,929,097
$ 1,849,655	4,892,181	17,734,030	298,841	1,005,179	28,090,777

NEW MEXICO FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Workers' Compensation Financing Fund	Insurance Department Financing Fund	Court Automation Financing Fund	State Capitol Improvement Financing Fund
Revenues				
Tax revenue	$ 976,712	1,142,717	-	993,844
Grant revenue	-	-	-	-
Interest on loans	-	-	-	-
Interest on investments	37,783	21,714	664	5,335
Other revenue	-	-	-	161,624
Total revenues	1,014,495	1,164,431	664	1,160,803
Expenditures				
Administrative fee	9,088	162	-	20,469
Professional services	1,270	-	1,269	1,270
Salaries and fringe benefits	-	-	-	-
In-state travel	-	-	-	-
Maintenance and repairs	-	-	-	-
Operating costs	-	-	-	-
Grant expense	-	-	-	-
Total current expenditures	10,358	162	1,269	21,739
Debt service				
Principal payments	160,000	65,000	-	400,000
Interest expense	191,252	2,600	-	573,125
Bond issuance costs	-	-	-	-
Total debt service expenditures	351,252	67,600	-	973,125
Excess (deficiency) of revenues over expenditures	652,885	1,096,669	(605)	165,939
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Transfers (to) from other funds	-	-	-	-
Transfers to other state agencies	(403,439)	(1,800,000)	-	-
Total other financing sources (uses)	(403,439)	(1,800,000)	-	-
Net change in fund balance	249,446	(703,331)	(605)	165,939
Fund balances - beginning	998,106	1,376,969	7,802	100,777
Fund balances - ending	$ 1,247,552	673,638	7,197	266,716

See Notes to Financial Statements.

Equipment Loan Fund	State Building Program Cigarette Tax	Water Project Fund	Emergency Drought Relief	Water Planning Grant	Other Governmental Funds
$ 2,201,529	1,502,347	-	-	-	6,817,149
-	-	-	2,069,973	-	2,069,973
-	-	-	-	-	-
3,429	115,170	355,666	7,610	15,733	563,104
-	-	-	-	-	161,624
2,204,958	1,617,517	355,666	2,077,583	15,733	9,611,850
7,494	-	-	-	-	37,213
-	19,720	66,607	25,079	7,690	122,905
-	-	73,625	38,910	9,885	122,420
-	-	7,140	2,640	46	9,826
-	-	1,321	656	166	2,143
-	-	27,771	8,172	2,017	37,960
-	-	-	1,760,028	-	1,760,028
7,494	19,720	176,464	1,835,485	19,804	2,092,495
719,000	600,000	-	-	-	1,944,000
251,187	212,450	-	-	-	1,230,614
-	-	-	-	-	-
970,187	812,450	-	-	-	3,174,614
1,227,277	785,347	179,202	242,098	(4,071)	4,344,741
-	-	-	-	-	-
-	(187,296)	-	52,507	1,004,262	869,473
-	-	-	-	-	(2,203,439)
-	(187,296)	-	52,507	1,004,262	(1,333,966)
1,227,277	598,051	179,202	294,605	1,000,191	3,010,775
622,378	2,294,130	17,518,160	-	-	22,918,322
$ 1,849,655	2,892,181	17,697,362	294,605	1,000,191	25,929,097

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2003

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	Bank of New York (New York)	HSBC New York (New York)	Total
Bank Accounts					
Operating account - checking	$ 36,406	-	-	-	36,406
Wire Transfers - checking	1,508	-	-	-	1,508
Repurchase Agreements	-	4,288,901	13,463,159	3,279,691	21,031,751
Total amount of deposits (bank balances)	37,914	4,288,901	13,463,159	3,279,691	21,069,665
FDIC coverage	(100,000)	-	-	-	(100,000)
Total uninsured public funds	(62,086)	4,288,901	13,463,159	3,279,691	20,969,665
Collateral requirement @ 102%	-	4,374,679	13,732,422	3,345,285	21,452,386
Pledges and securities					
FMCL, matures July 1, 2003					
Held at Wells Fargo, Albuquerque					
CUSIP 36225BNF1					
Par $3,138,270	3,293,132	-	-	-	3,293,132
UST, matures May 15, 2017					
Held at Wells Fargo, Albuquerque					
CUSIP 912810DY2					
Par $3,145,000	-	4,741,968	-	-	4,741,968
GNMA, matures March 15, 2032					
Held at Bank of New York, New York					
CUSIP 36225BTC3					
Par $12,777,326	-	-	14,001,686	-	14,001,686
UST, matures November 15, 2004					
Held at Wells Fargo, Albuquerque					
Par $3,470,000					
CUSIP 912833FV7	-	-	-	3,411,982	3,411,982
Over/(under) secured	$ 3,293,132	367,289	269,264	66,697	3,996,382

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES
Year Ended June 30, 2003

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency		
Capitalization Grants for Drinking Water		
State Revolving Funds	66.468	$ 2,311,895

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditure of federal awards is prepared on the accrual basis of accounting.

NOTE B. FUNDS PASSED THROUGH TO SUBRECIPIENTS

Federal expenditures include funds passed through to subrecipients as follows:

CFDA Number	Subrecipient	Amount
66.468	New Mexico Environment Department	$ 2,004,212

NOTE C. LOANS FUNDED

	Original Balance	Balance at June 30, 2003
Revolving Loans		
Loans funded in previous years	$13,442,613	12,659,591
Loans funded in current year		
West Hammond Domestic	1,040,455	1,011,544
Pendaries Village	1,299,495	1,251,170
City of Albuquerque - Duranes	3,600,000	3,600,000
	5,939,950	5,862,714
Total loans funded	$19,382,563	18,522,305

The revolving loans are funded through a mix of 80% federal and 20% state monies. The technical set-aside loans are funded with 100% federal monies.

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Authority's ability to

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-1 and 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

Members of the Board of Directors
New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

In our opinion, the Authority complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of management and Board of the Authority, the State Auditor, and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

NEW MEXICO FINANCE AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2003

Comment	Current Status
02-1 Water/Waste Water Project Grant Fund Unauthorized Signatures	Resolved

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general-purpose financial statements of the New Mexico Finance Authority (Authority).

2. Two reportable conditions were disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.

4. No reportable conditions were disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

6. There were no audit findings relative to the major federal award program for the Authority.

7. The program tested as a major program is:

Program Name	CFDA Number
Capitalization Grants for Drinking Water State Revolving Funds	66.468

8. The threshold for distinguishing Type A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

03-1 Information System Security Policy

Condition

We noted that the Authority's employee handbook contains policies addressing the use of email and the Internet. However, the Authority does not currently have a comprehensive written Information System Security Policy.

Criteria

Formally communicated and comprehensive policies increase employee awareness with respect to the acceptable use of the Authority's computer resources.

Effect

Confidential data may be disclosed, whether intentionally or not. The Authority's computer systems may be compromised, whether intentionally or not.

Cause

The employee manual contains some, but not all, elements of a comprehensive Information System Security Policy.

Recommendation

We recommend that additional policies be drafted covering items such as software copyrights, password confidentiality and confidentiality of data, and that all policies be contained in a single document, either within the employee manual or as a stand-alone Information System Security Policy. We further recommend that such policies be communicated to all employees that have access to systems and data.

Management's Response

Management will draft and implement the additional recommended policies.

B. FINDINGS-FINANCIAL STATEMENT AUDIT (CONTINUED)

03-2 Information System Disaster Recovery Plan

Condition

The Authority does not currently have a comprehensive written Information System Disaster Recovery Plan that identifies key processes, step-by-step recovery procedures and anticipated recovery time frames.

Criteria

Without documented and tested recovery procedures, the Authority may not be able to process critical functions in the event of a disaster. Additionally, efforts for an orderly recovery may be hampered.

Effect

Critical data may be lost, and continuity of data processing processes could be interrupted in the event of a disaster.

Cause

The Authority has grown to the point where more formal plans are needed.

Recommendation

The Authority should develop a written business recovery plan. The business recovery plan should include documented, tested procedures, which, if followed, will ensure the ongoing capabilities of critical resources and continuity of operations. Copies of the plan should be distributed to key members of management and stored off-site.

Management's Response

Management will draft and implement the additional recommended policies.

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

None

An exit conference was held on November 25, 2003, and attended by the following:

New Mexico Finance Authority Personnel

James Jimenez, Audit Committee Chair
David W. Harris, Executive Director
Keith H. Mellor, Chief Financial Officer

Neff + Ricci LLP Personnel

Larry Carmony, Partner
Scott Eliason, Senior Manager

Neff + Ricci LLP assisted the Authority in preparing these financial statements.

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APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are extracts, supplementing the information in the body of the Official Statement, of certain provisions of the Indenture. These extracts do not purport to be complete and reference is made to the Indenture for a full and complete statement of such provisions. See "ADDITIONAL INFORMATION."

The following are certain definitions contained in the Indenture and extracts of certain provisions contained in the General Indenture and are not to be considered as a full statement thereof. Reference is hereby made to the Indenture for full details of all of the terms of the Bonds, the security provisions appertaining thereto and the other terms thereof. During the offering period of the Series 2004C Bonds, copies of the Indenture will be available at the principal office of the Underwriters. Subsequent to the offering of the Series 2004C Bonds, copies of the Indenture may be obtained from the Trustee.

CERTAIN DEFINITIONS

"Account" or "Accounts" means one or more of the special trust accounts created and established pursuant to the Indenture.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and as the same may hereafter be amended and supplemented.

"Additional Bonds" means any Bonds of the NMFA, authorized and issued under the Indenture, in compliance with the Indenture, except for the Series 1995A-B Bonds.

"Additional Pledged Loans" means any additional loans or securities which (i) were made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund and (ii) the payments of principal and interest on which have been specifically pledged by the NMFA to the payment of the Bonds and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Agreement" or "Agreements" means, as the case may be, one or more Loan Agreements, Grant Agreements or Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of a Project by the NMFA under the General Indenture.

"Agreement Pledged Revenues" means the pledged revenues designated by a Governmental Unit for payments to be made pursuant to the respective Loan Agreement, Security Documents or Securities.

"Agreement Reserve Fund" means the Agreement Reserve Fund established by the Indenture and each Agreement Reserve Account, if any, created by an Agreement.

"Agreement Reserve Requirement" for each Agreement establishing an Agreement Reserve Account, means the amount, if any, required by such Agreement to be allocated to an Agreement Reserve Account (relating to such Agreement) within the Agreement Reserve Fund.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax Exempt Bonds.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

CATEGORY OF LOANS AND ADDITIONAL PLEDGED LOANS	**APPLICABLE PERCENTAGES**
CATEGORY I LOANS AND ADDITIONAL PLEDGED LOANS	100%
CATEGORY II LOANS AND ADDITIONAL PLEDGED LOANS	80%
CATEGORY III LOANS AND ADDITIONAL PLEDGED LOANS	50%
CATEGORY IV LOANS AND ADDITIONAL PLEDGED LOANS	0%

"Authorized Denominations" means, with respect to the Series 2004C Bonds, $5,000 or any integral multiple thereof and with respect to the Loans that are subject to the Sixty-fourth Supplemental Indenture, $5,000 and any other dollar amount in excess of $5,000.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary or Treasurer, and when used with reference to any act or document also means any other person authorized by resolution of the NMFA to perform such act or execute such documents; (ii) in the case of a Governmental Unit, means the person or persons authorized by resolution or ordinance of the Governmental Unit to perform any act or execute any document; and (iii) in the case of the Trustee or the Paying Agent any person authorized to perform any act or sign any document by or pursuant to the bylaws or any resolution of the governing body of the Trustee or the Paying Agent, respectively.

"Beneficial Owner" means, while DTC or its nominee is the registered owner of the Series 2004C Bonds, any person entitled to receive payment of principal of, premium, if any, and interest on Series 2004C Bonds and otherwise exercise ownership rights with respect to Series 2004C Bonds.

"Bond Counsel" means nationally recognized bond counsel experienced in matters of municipal law, satisfactory to the Trustee and listed in the list of municipal bond attorneys, as published semiannually by The Bond Buyer, or any successor publication.

"Bond Documents" means collectively, the Loan Agreements, the Grant Agreements, the Securities, the Security Documents, and the Indenture.

"Bond Fund" means the fund by that name established by the Indenture to be held by the Trustee and used to pay amounts due on the Bonds.

"Bond Fund Year" means a twelve-month period beginning on June 2 of each year and ending on the next succeeding June 1.

"Bond Registrar" or "Registrar" means the Trustee or any other registrar appointed under the Indenture.

"Bonds" means all Bonds issued and secured under the Indenture.

"Business Day" means any day, other than a day on which banks located in New York, New York or the cities in which the Principal Offices of the Trustee or the Paying Agent are located are required or authorized by law or executive order to close, or on which the New York Stock Exchange is closed.

"Cash Flow Statement" means an NMFA certificate (a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans and Grants or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate:

(A) the amount of NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(B) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(C) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding;

and (b) showing that in each such Bond Fund Year, the aggregate of the amount set forth in clause (A) of the definition divided by 1.35, plus the aggregate amount set forth in clause (B) of the definition, exceeds 100% of the aggregate of the amounts set forth in clause (C) of the definition.

For purposes of the foregoing definition the following assumptions will apply:

(i) NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12 month period in the 24 months next preceding the delivery of the Cash Flow Statement;

(ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(iii) Loans and Additional Pledged Loans will be assumed to remain in their then current category designations throughout the period projected in the Cash Flow Statement.

"Category I Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in at least the third highest full rating category or higher by the Rating Agency.

"Category II Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

"Category III Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are not designated or rated or are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

"Category IV Loans and Additional Pledged Loans" means all Non-Performing Loans and Additional Pledged Loans and Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been fully replenished in accordance with the related Agreement or loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

"Cede" means Cede & Co. and any substitute nominee of DTC who becomes the Registered Owner of any Series 2004C Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and the applicable regulations thereunder.

"Continuing Disclosure Undertaking" means that certain Continuing Disclosure Undertaking between the NMFA and the Trustee dated the date of issuance and delivery of the Series 2004C Bonds, as originally executed as it may be amended from time to time in accordance with the terms thereof.

"Covenant Default" has the meaning, if any, given in any Loan Agreement, Securities or Additional Pledges Loan.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York.

"Expense Fund" means the fund by that name established by the Indenture to be held by the Trustee.

"Funds and Accounts" means collectively, the Debt Service Fund and the Accounts created in the Indenture, the Agreement Reserve Fund and the Accounts created therein, the Program Fund and the Accounts created therein, the Expense Fund, the Rebate Fund and the Accounts created therein, the Revenue Fund, and the Bond Fund.

"Governmental Obligations" means direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Governmental Units" means any "qualified entity" under the Act which has executed and delivered to the NMFA a Loan Agreement, Grant Agreement or Securities for the purpose of financing all or a portion of a Project.

"Grant Agreements" means a grant or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and does not require payments by the Governmental Unit to be made thereunder.

"Grants" means collectively, the Grants made pursuant to the Grant Agreements.

"Indenture" means the General Indenture of Trust and Pledge and all Supplemental Indentures thereto as the same may be amended and supplemented.

"Interest Component" means the portion of each Loan Payment representing interest on the related Loan.

"Interest Payment Date" means, with respect to the Series 2004C Bonds, each June 1 and December 1, beginning June 1, 2005.

"Loan Agreement" means a loan or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and requires the Governmental Unit to repay the amounts advanced.

"Loan Payment" means the payments made by each Governmental Unit pursuant to the provisions of a Loan Agreement or Securities and which are to be used in accordance with the Indenture.

"Loan Payment Date" means the date specified in each Loan Agreement or Securities as the due date for Loan Payments.

"Loans" means collectively, the Loans made pursuant to the Loan Agreements and the Securities; excluding, however, all Additional Pledged Loans. Loans and Additional Pledged Loans may be evidenced by the same document containing two or more separate obligations.

"NMFA Portion of the Governmental Gross Receipts Tax" means an amount equal to 75% of the net receipts attributable to the governmental gross receipts tax levied pursuant to Section 7-9-4.3, NMSA 1978, as amended, and distributed to the NMFA pursuant to Section 7-1-6.38, NMSA 1978, as amended.

"Nonperforming Loans and Additional Pledged Loans" means Loan Agreements and Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a Covenant Default) or under which a delinquency exists in payments of principal or interest thereunder.

"Original Issue Date" means, with respect to the Series 2004C Bonds, the date of delivery thereof.

"Outstanding" or "Bonds outstanding" mean all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) any Bond (or any portion thereof) (i) for the payment or redemption of which there will be held in trust under the Indenture and set aside for such payment or redemption, moneys and/or Governmental Obligations (not callable at the option of the issuer thereof) maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Governmental Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or redemption price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which will be given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

(c) Bonds deemed paid pursuant to the provisions of the Indenture; and

(d) Bonds in lieu of which others have been authenticated pursuant to the Indenture.

"Participants" means underwriters, securities brokers and dealers, banks and trust companies, clearing corporations and other persons from time to time for which DTC or any successor Securities Depository holds Series 2004C Bonds as Securities Depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Paying Agent," when used with respect to the Series 2004C Bonds, means the person or persons authorized by the NMFA to pay the principal of, premium, if any, and interest on, the Series 2004C Bond on behalf of the NMFA, and initially is the Trustee.

"Permitted Investments" (i) with respect to the investment of the respective Accounts of the Program Fund, the Agreement Reserve Fund and the Debt Service Fund has the meaning set forth in each Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Expense Fund and the Rebate Fund or any other fund created under the Indenture, the following to the extent permitted by New Mexico law:

(a) Governmental Obligations;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);

(i) *Farmers Home Administration* (FmHA) Certificates of Ownership;

(ii) *Federal Housing Administration* (FHA) Debentures;

(iii) *General Services Administration* Participation certificates;

(iv) *Government National Mortgage Association* (GNMA or "Ginnie Mae") GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates);

(v) *U.S. Maritime Administration* Guaranteed Title XI financing;

(vi) *U.S. Department of Housing and Urban Development* (HUD) Project Notes and Local Authority Bonds;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself;

(i) *Federal Home Loan Bank System* Senior debt obligations (Consolidated debt obligations);

(ii) *Federal Home Loan Mortgage Corporation* (FHLMC or "Freddie Mac") rated AAA by Standard & Poor's and Aaa by Moody's. Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) *Federal National Mortgage Association* (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) *Student Loan Market Association* (SLMA or "Sallie Mae") Senior debt obligations;

(v) *Resolution Funding Corp.* (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(vi) *Farm Credit System* Consolidated systemwide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm" or "Aam" or by Moody's of "Aaa" including funds from which the Trustee or its affiliates revenue fees for investment advisory or other services to such funds;

(e) Certificates of deposit ("CD") secured at all times by collateral described in (a) and/or (b) above. CD's must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+"or better by S&P, and "Prime-1" or better by Moody's. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

(g) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1+" by S&P;

(j) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the NMFA by the Rating Agency;

(k) Investment contracts with providers the long term, unsecured debt organization of which are rated at least "A" by the Rating Agency; and

(l) deposits with the Treasurer of the State for investment in obligations described above.

"Pledge Notification" means a written notice, executed by an Authorized Officer and delivered to the Trustee, pledging one or more Additional Pledged Loans or Securities, and authorizing the Trustee to create Accounts designated in the Loan Agreements or other instruments to be executed and delivered in connection with Additional Pledged Loans or Securities.

"Prepayment" means the amount paid by a Governmental Unit pursuant to the provisions of its Loan Agreement or Securities as a prepayment of all or a portion of the principal balance due under its Loan Agreement or a prepayment of the principal amount of the Securities.

"Principal Component" means the portion of each Loan Payment representing principal on the related Loan.

"Program" means the NMFA's public project revolving fund program.

"Program Costs" means the fees and expenses payable to the Trustee, any Paying Agent and the NMFA.

"Program Fund" means the fund by that name which is created and established by the Indenture.

"Projects" means, collectively, the projects (i) authorized by the Legislature for financing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture and a Loan Agreement, Grant Agreement or Securities.

"Public Project Revolving Fund" means the public project revolving fund established pursuant to the Act.

"Purchasers" means, with respect to the Series 2004C Bonds, RBC Dain Rauscher Inc., Banc of America Securities LLC and George K. Baum & Company.

"Rating Agency" means Moody's Investors' Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

"Rebate Calculation Date" means, with respect to each Series of Bonds, the interest payment date next preceding the fifth anniversary of the issue date of such Series of Bonds, each fifth anniversary of the Initial Rebate Calculation Date for such Series of Bonds, and the date of retirement of the last bond for such Series.

"Rebate Fund" means the Fund so designated, which is created and established by the Indenture.

"Rebate Requirement" means the amount of arbitrage profits earned from the investment of gross proceeds of the Bonds in nonpurpose investments described in Section 148(f)(2) of the Code and defined as "Rebate Amount" in Section 1.148-3 of the Treasury Regulations, which are payable to the United States at the times and in the amounts specified in Section 148(f)(3) of the Code and Section 1.148-3 of the Treasury Regulations.

"Register" means the record of ownership of the Series 2004C Bonds maintained by the Registrar.

"Registered Owner" or "Bondowner" or "Owner" or "Bondholder" or "holder" means the person or persons in whose name or names a Bond will be registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture.

"Regular Record Date" means the fifteenth (15th) day immediately preceding each Interest Payment Date (or the Business Day immediately preceding such fifteenth (15th) day, if such fifteenth (15th) day is not a Business Day).

"Representation Letter" means the blanket representations letter from the NMFA to DTC in substantially the form attached to the Sixty-fourth Supplemental Indenture of Trust as Exhibit "C."

"Revenue Fund" means the Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund so designated, which is created and established by the Indenture to be held by the Trustee.

"Revenues" means (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund).

"Securities" means the securities purchased or acquired by the NMFA in consideration for a Loan made pursuant to the Indenture.

"Securities Depository" means the person who operates the computerized book entry system through which ownership interest in the 2004C Bonds may be recorded. Such entity shall at all times be a registered clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and in good standing thereunder.

"Security Documents" means the intercept agreements or other security documents delivered by Governmental Units to provide additional security for a Loan Agreement or Securities.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefore.

"Series 1995 Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1995A, in an initial aggregate principal amount of $41,230,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 1995B, in an initial aggregate principal amount of $4,000,000.

"Series 1996A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 1996A, in an initial aggregate principal amount of $17,625,000.

"Series 1997 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 1997, in an initial principal amount of $8,585,000.

"Series 1999A-D Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1999A, in an initial aggregate principal amount of $13,135,000, the Public Project Revolving Fund Revenue Bonds, Series 1999B, in an initial aggregate principal amount of $3,025,000, the Public Project Revolving Fund Revenue Bonds, Taxable Series 1999C, in an initial aggregate principal amount of $2,265,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 2000 in an initial aggregate principal amount of $4,875,000.

"Series 2000A Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 2000A, in an initial aggregate principal amount of $4,715,000.

"Series 2000B-C Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2000B, in an initial aggregate principal amount of $7,670,000 and the Public Project Revolving Fund Revenue Bonds, Series 2000C, in an initial aggregate principal amount of $28,850,000.

"Series 2002A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2002A, in an initial aggregate principal amount of $55,610,000.

"Series 2003A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2003A, in an initial principal amount of $39,945,000.

"Series 2003B Bonds" means the Public Project Revolving Fund Revenue Refunding Bonds, Series 2003B, in an initial principal amount of $25,370,000.

"Series 2004A Bonds" means, collectively, the Series 2004A-1 Bonds and the Series 2004A-2 Bonds.

"Series 2004A-1 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004A-1, bearing interest at the rates described therein and in the aggregate principal amount of $28,440,000.

"Series 2004A-2 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004A-2 (Taxable), bearing interest at the rates described therein and in the aggregate principal amount of $14,365,000.

"Series 2004B Bonds" means, collectively, the Series 2004B-1 Bonds and the Series 2004B-2 Bonds.

"Series 2004B-1 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004B-1, bearing interest at the rates described therein and in the aggregate principal amount of $48,135,000.

"Series 2004B-2 Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004B-2 (Taxable), bearing interest at the rates therein described and in the aggregate principal amount of $1,405,000.

"Series 2004C Bond Insurance Policy" means, with respect to the Series 2004C Bonds, the municipal bond insurance policy issued by the Series 2004C Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2004C Bonds, as provided therein.

"Series 2004C Bond Insurer" means, with respect to the Series 2004C Bonds, Ambac Assurance Corporation or any successor thereto.

"Series 2004C Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004C, bearing interest at the rates herein described and in the aggregate principal amount of $168,890,000.

"Special Record Date" means a special record date established pursuant to the Indenture.

"State" means the State of New Mexico.

"Supplemental Indenture" means any supplemental indenture approved by the NMFA in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture.

"Trust Estate" means the property held in trust by the Trustee pursuant to the Granting Clauses of the Indenture.

"Trustee" means Bank of Albuquerque, N.A., Albuquerque, New Mexico and its successors and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Trustee at the time serving as successor Trustee under the Indenture.

"Underwriters" shall have the meaning ascribed thereto in the Continuing Disclosure Undertaking.

THE INDENTURE

Registration and Exchange of Bonds

Books for the registration and for the transfer of the Bonds will be kept by the Trustee which is appointed the Bond Registrar with respect to the Bonds. Any Bond may, in accordance with its terms, be transferred only upon the registration books kept by the Bond Registrar, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Registrar, duly executed. No transfer will be effective until entered on the registration books kept by the Registrar. Upon surrender for transfer of any fully registered Bond at the principal corporate trust office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing and satisfactory to the Trustee, the NMFA will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees a new, fully registered Bond or Bonds for a like aggregate principal amount. Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series and the same maturity. The execution by the NMFA of any Bond of any authorized denomination will constitute full and due authorization of such denomination, and the Trustee will thereby be authorized to authenticate and deliver such Bond. The NMFA and the Trustee will not be required to transfer or exchange any Bond of a particular Series (i) during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date, (ii) during the period from and including the day fifteen days prior to any Special Record Date, to and including the date of the proposed payment pertaining thereto, (iii) during the period from and including the day fifteen days prior to the mailing of notice calling any Bonds of a particular Series for redemption, to and including the date of such mailing, or (iv) at any time following the mailing of notice calling such Bond for redemption.

The NMFA, the Bond Registrar and the Paying Agent may treat and consider the person in whose name each Bond is registered on the registration books kept by the Registrar as the holder and absolute owner thereof for the purpose of receiving payment of, or on account of, the principal or redemption price thereof and interest due thereon and for all other purposes whatsoever, and neither the NMFA, nor the Bond Registrar nor the Paying Agent will be affected by any notice to the contrary. Payment of or on account of either principal of or interest on any Bond will be made only to or upon order of the Registered Owner thereof or such person's legal representative, but such registration may be changed as hereinabove provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

The Trustee will require the payment by the Registered Owner requesting exchange or transfer, only of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

Nonpresentment of Bonds

In the event that any Bond are not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond are made available to the Trustee for the benefit of the holder or holders thereof, all liability of the NMFA to the holder thereof for the payment of such Bond will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds, without liability to the holders of such Bonds for interest thereon, for the benefit of the holder of such Bond who will thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond. Moneys so deposited with the Trustee which remain unclaimed four (4) years after the date payment thereof becomes due will, to the extent authorized by applicable law, at the request of the NMFA and if the NMFA is not at the time to the knowledge of the Trustee in default with respect to any covenant contained in the Indenture and if to the knowledge of the Trustee there has been no Event of Default, be repaid to the NMFA and the Owners of the Bonds for which the deposit was made will thereafter be limited to a claim against the NMFA; provided that the Trustee, before making payment to the NMFA, may cause a notice to be given to the Owners of the Bonds at their registered addresses, stating that the moneys remaining unclaimed will be returned to the NMFA after a specified date. Upon payment of such amounts to the NMFA by the Trustee, the NMFA will deal with such money as required by applicable law.

Covenants of the NMFA

The NMFA will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or Supplemental Indenture or in any Bond, including the following covenants and agreements:

<u>Covenant Against Creating or Permitting Liens</u>. Except for the pledge of the Trust Estate to secure payment of the Bonds, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto; provided, however, that (i) nothing contained in the Indenture will prevent the NMFA from issuing, if and to the extent permitted by law, indebtedness having a lien on the Trust Estate subordinated to that of the Bonds and (ii) Revenues constituting NMFA Portion of the Governmental Gross Receipts

Tax and payments of Additional Pledged Loans not needed for payments under the Indenture in any Bond Year may be released to the NMFA free and clear of the lien as provided in the Indenture.

Existence; Compliance with Laws. The NMFA will take no action to discontinue maintenance of its existence nor to impair its rights, powers, privileges, and franchises, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements, and directions of any legislative, executive, administrative, or judicial body which may relate to the execution and delivery of the Bonds and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Grant Agreements, Security Documents and Securities; Exceptions, Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Grant Agreements, Security Documents and Securities except as specifically authorized in the Indenture in furtherance of the security for the Bonds; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan Agreement, Grant Agreement, Securities, or Additional Pledge Loan and complied with the other provisions thereof, the NMFA and the Trustee may release such Agreement or Additional Pledge Loan and any Security Documents from the pledge created under the Indenture; and (ii) the NMFA may direct the release of any Agreement or Additional Pledged Loan from the lien and pledge of the Trust Estate under the Indenture upon the delivery to the Trustee of a Cash Flow Statement reflecting such release. Except to the extent otherwise provided in the Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners may be impaired and will, from time to time, execute and deliver such further instruments and will take such further action as may be required to carry out the purposes of the Indenture.

Financing Statements. The NMFA and the Trustee will cause the Indenture to be filed as a financing statement with the Secretary of State of the State, in such manner and at such places as may be required by law fully to protect the security interest of the Owners in the Bonds and the right, title, and interest of the Trustee in and to the Trust Estate. From time to time, the Trustee may, but will not be required to, obtain an opinion of counsel setting forth what, if any, actions by the NMFA or Trustee should be taken to preserve such security. The NMFA will execute or cause to be executed any and all further instruments as may reasonably be requested by the Trustee for such protection of the interests of the Registered Owners, and will furnish satisfactory evidence to the Trustee that such actions have been taken and will take such other action as is necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds executed and delivered under the Indenture has been paid. The Trustee will execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as it may be advised by an opinion of Counsel may be necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the Principal of and interest on the Bonds have been paid.

Rights Under Loan Agreements; Grant Agreements, Security Documents and Securities. The Loan Agreements, Grant Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions of the Indenture, the Loan Agreements, Grant Agreements, Security Documents and Securities may not be effectively amended, changed, modified, altered or terminated without the prior written consent of the Trustee in accordance with the Indenture, and reference is made to the same for a detailed statement of said covenants and obligations of the Governmental Units thereunder.

Bonds to be Tax-Exempt Obligations. The NMFA covenants and agrees to and for the benefit of the Owners of Bonds that the NMFA (i) will not take any action that would cause interest on the Bonds to become subject to federal income taxation, (ii) will not omit to take or cause to be taken, in timely manner, any action, which omission would cause the interest on the Tax-exempt Bonds to become subject to federal income taxation, and (iii) will, to the extent possible, comply with any other requirements of federal tax law applicable to the Bonds in order to preserve the exemption from federal income taxation of interest on the Bonds. The provisions of this paragraph do not apply to Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

State Pledge of Non-Impairment. The State has pledged to and agreed with the Bondholders (as an obligation issued under the Act) that the State will not limit or alter the rights vested in the NMFA under the Act to fulfill the terms of the Indenture with the Bondholders or in any way impair the rights and remedies of those holders until the Bonds together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Deposit and Advance of Funds

The NMFA and the Trustee will deposit the proceeds of the Bonds to the Accounts created under the Indenture and will make the advances of funds thereunder to fund the Program and the NMFA will enter into the Loan Agreements and Grant Agreements with the Governmental Units and purchase and receive the Securities and Security Documents from the Governmental Units on the terms and conditions and upon submission of the documents as provided in the Indenture.

Loan Agreement and Securities - Loan Payments

The Loan Payments will be governed by the following provisions:

(a) Principal, Program Costs and Interest Components. A portion of each Loan Payment is paid as, and represents payment of, interest (the "Interest Component") on the related Loan and payment of a Program Cost component relating to each loan (the "Program Cost Component") and the balance of each Loan Payment is paid as, and represents payment of, principal (the "Principal Component") on the related Loan, all as set forth in the related Loan Agreement or Securities. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on each Loan Payment Date. The Interest Component of Loan Payments for each Loan Agreement will be the amount of interest based on a 360 day year comprised of twelve 30-day months, unless otherwise specified in the related Supplemental Indenture. The Program Cost Component may be included in the interest rate borne by a Loan.

(b) Loan Agreement and Securities Term. The "Term" of a Loan Agreement or Securities will be defined in the Loan Agreement or Securities. The Term will not exceed the useful life of the Project financed pursuant to the related Loan Agreement or Securities.

(c) Agreement Payment. Each Loan Agreement and Security will provide that the related Governmental Unit will pay Loan Payments directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less a 0.25% administration fee retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date. In the case of Securities, the Securities will be registered in the name of the Trustee or properly assigned to the Trustee on the books of any registrar for such Securities or, if in bearer form delivered to and held by the Trustee.

(d) Prepayments. The Loan Agreements and Securities may contain a provision permitting the Governmental Unit to prepay the Principal Component of the Loan Payments, in accordance with the provisions of the Loan Agreement and Securities by payment of Prepayments in whole on any date or in part on any Interest Payment Date, at any time when the related Series of Bonds are or are about to become subject to optional redemption upon not less than forty-five (45) days' prior written notice to the Trustee and subject to any other conditions set forth in the related Supplemental Indenture, Loan Agreement or Securities. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination. Each Prepayment will include interest to the date upon which the Trustee has scheduled a related redemption of Bonds as provided in the related Supplemental Indenture.

(e) Use of Reserve at Final Payment. At the time of payment in full of each Loan Agreement or Securities, the applicable Agreement Reserve Account in the Agreement Reserve Fund will be applied toward the final payment of amounts due under the related Loan Agreement or Securities.

Establishment of Funds and Accounts

There is established in the Indenture with the Trustee the following funds and accounts within funds, each of which will be held, for the term of the Indenture, in Accounts segregated from all other moneys of the Trustee or the NMFA.

(a) a Program Fund and within such fund a separate Account for each Agreement;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement, which separate Account is established and maintained by the NMFA;

(c) a Bond Fund;

(d) an Agreement Reserve Fund and within such fund, a separate Account for each Agreement which contemplates the establishment of an Agreement Reserve Account;

(e) an Expense Fund;

(f) a Rebate Fund and within such fund a separate Account for each Agreement; and

(g) a Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund (the "Revenue Fund") established as an account of the Public Project Revolving Fund.

In addition to the foregoing, with respect to Additional Pledged Loans the Trustee may, as directed in a Supplemental Indenture, establish subaccounts within the Program Fund, the Agreement Reserve Fund or the Debt Service Fund for such Additional Pledged Loans.

Flow of Funds

All Funds will be accounted for and maintained by the NMFA in the Funds and Accounts established in the Indenture. Each Fund and Account will be kept separate and apart from all other Funds and Accounts of the NMFA. The Funds will be expended and used by the Trustee and the NMFA only in the manner of order and priority specified below:

Program Fund. Upon the issuance of a Series of Bonds the Trustee will deposit an amount specified in the related Supplemental Indenture in the Program Fund and will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement. Disbursements from each Account within the Program Fund may be made in stages. Disbursements from each Account within the Program Fund with respect to an Agreement with a Governmental Unit will (except for amounts to be used for capitalized interest on the Loan and as may be directed in a Supplemental Indenture with respect to Grants) only be made upon the delivery to the Trustee of a requisition substantially in the form attached to each Agreement signed by an Authorized Officer of the Governmental Unit.

Application of Loan Payments. The flow of funds is discussed in the forepart of this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS - Flow of Funds."

Pursuant to the Supplemental Indenture authorizing the Series 2000A Bonds, the payments required to be made by the 2000A Governmental Unit pursuant to the 2000A Agreement are to be paid directly to the Trustee from the New Mexico Taxation and Revenue Department pursuant to an Intercept Agreement between NMFA and the 2000A Governmental Unit, and the Trustee is to deposit all such payments immediately upon receipt thereof as follows:

(i) moneys identified by the NMFA as being from the receipt of the Correctional Facility Tax will be deposited into the Series 2000A Correctional Facility Tax Account and moneys identified by the NMFA as being from the receipt of the 2000A Governmental Unit Gross Receipts Tax will be deposited into a Series 2000A Governmental Unit Gross Receipts Tax Account, both in the Series 2000A Tax Revenue Fund;

(ii) moneys on deposit in the Series 2000A Correctional Facility Tax Account will be applied as follows:

First: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent moneys are available for such purpose, to the payment of Program Costs;

Third: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Agreement Reserve Fund until such time as the balance on deposit in said Account equals the Agreement Reserve Requirement of such Account; and

Fourth: to the extent moneys are available for such purpose, to the Series 2000A Correctional Facility Tax Redemption Fund to annually redeem Series 2000A Bonds on or as soon as is reasonably practicable after June 2 from moneys deposited prior to the preceding June 1 in accordance with the Supplemental Indenture. Any excess Correctional Facility Tax revenues not applied to redemption will be returned to the 2000A Governmental Unit Debt Service Account.

(iii) moneys on deposit in the Series 2000A Governmental Unit Gross Receipts Tax Account will be applied as follows:

First: to the extent moneys from the Series 2000A Correctional Facility Tax Account deposited into the 2000A Governmental Unit Debt Service Account and the 2000A Governmental Unit Agreement Reserve Account in the Agreement Reserve Fund are insufficient to meet the then required principal and interest payments due or to next become due with respect to the 2000A Agreement, to the 2000A Governmental Unit's Debt Service Account the amount necessary to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent money from the Series 2000A Correctional Facility Tax Account are insufficient to pay the 2000A Governmental Unit's share of Program Costs, an amount necessary to pay such Program Costs; and

Third: to the 2000A Governmental Unit, the balance of the moneys remaining in the Series 2000A Governmental Unit Gross Receipts Tax Account as soon as reasonably practicable after June 2 of each year.

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement), will be deposited in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement, provided, however, that all earnings received on the Governmental Unit's Accounts will be allocated solely to the benefit of such Governmental Unit. The Trustee will notify the Governmental Unit at least fifteen (15) days prior to the due date of its next payment of Loan Payments of the amount of earnings so allocated.

In the event that the Trustee receives Prepayments under a Loan Agreement or Securities, the Trustee will apply such Prepayments to the mandatory redemption of the Bonds or portions thereof in accordance with the related Supplemental Indenture, except with respect to the Series 2004B Bond and the Series 2004C Bonds, which are subject to the provisions of the Indenture discussed in the forepart of this Official Statement under the heading

"SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS – NMFA Covenants Concerning Agreement Prepayments."

At least once a year the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) to pay the Governmental Unit's share of Program Costs for the year, and will return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; provided, however, that with respect to Loans relating other than to the Series 2000 Bonds, any such excess will be disbursed as follows:

(a) Any excess attributable to earnings on funds and accounts for the Governmental Unit will be returned to the Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; and

(b) Any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the relevant Bonds will be deposited into the Revenue Fund; and, provided further, however, that with respect to the Series 2000A Loan Agreement, any such excess will be disbursed as provided in the second paragraph under this heading "Application of Loan Payments" above.

Amounts on deposit in the respective Account of the Agreement Reserve Fund in excess of the related Agreement Reserve Account Requirement will be transferred at least annually to the related Accounts of the Debt Service Fund and credited against payments next coming due under such Loan Agreement or Securities.

Amounts on deposit in the respective Account of the Agreement Reserve Fund will be applied toward the final payment of amounts falling due under the related Loan Agreement or Securities.

As provided in an Agreement, a Governmental Unit may (i) fund an Account in the Agreement Reserve Fund over time from deposits made by or on behalf of the Governmental Unit or (ii) may use any reserve fund surety or similar investments in lieu of a cash deposit to the Agreement Reserve Fund.

Amounts on deposit in each Agreement Reserve Account, if any, secure only the payments to be made under the related Agreement and may not be applied toward payments under any other Agreement or toward payment of the Bonds, except to the extent that amounts are due and owing under the related Agreement and amounts are not otherwise available for such payments in related Account of the Debt Service Fund.

All moneys held by the Trustee in the Bond Fund will be applied in accordance with the Indenture to pay the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and the interest on Bonds as it becomes payable. There will be deposited into the Bond Fund all accrued interest received, if any, at the time of the execution, sale and delivery of the Bonds.

Amounts remaining on deposit in the Bond Fund at the end of each Bond Fund Year and after payment of all amounts due on the Bonds for such Bond Fund Year will be transferred to the Revenue Fund.

Investment of Moneys

Any moneys held as part of a Governmental Unit's Account in any of the Funds established under the Indenture will be invested and reinvested by the Trustee at the direction of the related Governmental Unit in Permitted Investments in accordance with the following provisions.

Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due. In the absence of an appropriate direction from a Governmental Unit as to investment of funds, the

Trustee will invest and reinvest such amounts in a daily money market fund which invests only in United States Government Obligations.

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established under the Indenture or (ii) by the NMFA as agent for the Trustee will be invested and reinvested by the NMFA or the Trustee, as the case may be, at the direction of the related Governmental Unit in Permitted Investments as directed by the Loan Agreement or the Securities and in accordance with the following provisions.

The Trustee or the NMFA will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund or the Bond Fund will be invested and reinvested by the Trustee at the direction of the NMFA only in Permitted Investments in accordance with the Indenture. Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of the investments on deposit in the Bond Fund whenever the cash balance in the Bond Fund is insufficient to pay the principal of and premium, if any, and interest on the Bonds when due.

All such investments will at all times be a part of the account or fund from where the money used to acquire such investments was deposited and all gains thereon will be credited to, and losses thereon will be charged against, such accounts or funds except as expressly provided to the contrary in the Indenture.

All investments will mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the owner on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

The principal of the investments and the interest, income, and profits received in respect thereof will be applied as follows:

(i) all interest, income, and profits received in respect of the investment of the amounts on deposit in a Governmental Unit's Account in any of the Funds established under the Indenture will (after deduction of any losses) be retained in the applicable Governmental Unit's Account from which the investment was derived (except as otherwise required with respect to the Agreement Reserve Fund and deposits to be made to the Rebate Fund); and

(ii) all interest, income, and profits received in respect of the investment of the amounts on deposit in the Revenue Fund, the Rebate Fund or the Bond Fund will (after deduction of any losses) be retained in such Fund; and

(iii) whenever any other transfer or payment is required to be made from any particular Fund or Account, such transfer or payment will be made from such combination of maturing principal, redemption, or repurchase prices, liquidation proceeds, and withdrawals of principal as the Trustee deems appropriate for such purpose, after taking into account such factors as future transfers or payments from the Fund or Account in question, the reinvestment opportunities for maturing principal, the current yield on any permitted investments to be redeemed, withdrawn, or sold, and any penalties, gains, or losses to be realized upon any such redemption, withdrawal, or sale.

The Trustee will not be accountable for any depreciation in the value of the Permitted Investments or any losses incurred upon any authorized disposition thereof.

Method and Frequency of Valuation. In computing the amount in any Fund or account, Permitted Investments will be valued at least annually at cost, including commissions and accrued interest but excluding interest accrued following acquisition.

Defeasance

When there has been paid, or provisions for payment have been made to or for the holders and Owners of the Bonds, the principal of and premium, if any, and interest due or to become due on the Bonds at the times and in the manner stipulated therein, and if there has been paid to the Trustee and any paying agents all sums of money due or to become due according to the provisions of the Indenture, then the estate and rights granted by the Indenture will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture and on demand of the NMFA will execute such documents to evidence such release as will be reasonably required by the NMFA and will turn over to the NMFA all balances held by the Trustee under the Indenture (other than amounts required for return to the Governmental Units as provided in the Indenture).

Any Bond will be deemed to be paid within the meaning of and for all purposes of the Indenture when (a) payment of the principal of and the applicable premium, if any, on such Bond, whether at maturity or prior redemption plus interest thereon to the due date thereof, either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent has irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment, and/or (2) noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond is deemed to be paid under the Indenture, as aforesaid, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or noncallable Governmental Obligations.

Notwithstanding anything in the Indenture to the contrary, all moneys so deposited with the Trustee (or other escrow agent) as provided in the defeasance provisions of the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amount and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys have been so deposited, will be deposited in the Revenue Fund as and when realized and collected for use and application as are other moneys deposited in that fund.

All moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the defeasance provisions of the Indenture for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and noncallable Governmental Obligations have been so set aside in trust.

Neither the obligations nor the moneys deposited with the Trustee (or other escrow agent) pursuant to the defeasance provisions of the Indenture will be withdrawn or used for any purpose other than, and will be segregated and held in trust for, the payment of the principal or redemption price of, and interest on, the Bonds or portions thereof

Whenever moneys or obligations are deposited with the Trustee (or other escrow agent) for the payment or redemption of any Bonds more than sixty (60) days prior to the date that such Bonds are to mature or be redeemed, the Trustee will mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held, to all Owners of Bonds for the payment of which such moneys or obligations are being held.

Notwithstanding anything in the Indenture to the contrary, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the defeasance provisions of the Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture will be made without the consent of the Registered Owner of each Bond affected thereby.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on any Series of Bonds is paid by a bond insurer with respect to such Series of Bonds pursuant to a municipal bond insurance policy, the Bonds of such Series will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the NMFA, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the NMFA to the Registered Owners and related Security Instrument Issues of such Series of Bonds will continue to exist and will run to the benefit of such bond insurer, and such bond insurer will be subrogated to the rights of such Registered Owners and related Security Instrument Issues of such Series of Bonds.

Default Provisions and Remedies of the Trustee and Owners

Events of Default Defined. Each of the following events is an "Event of Default" under the Indenture:

(a) if payment of any installment of interest on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable; or

(b) if payment of the principal of or the redemption premium, if any, on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any fund hereunder or otherwise; or

(c) if the NMFA is for any reason rendered incapable of fulfilling its obligations under the Indenture; or

(d) if an order or decree is entered, with the consent or acquiescence of the NMFA, appointing a receiver or custodian for any of the Revenues of the NMFA, or approving a petition filed against the NMFA seeking reorganization of the NMFA under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the NMFA will not be vacated or discharged or stayed on appeal within 30 days after the entry thereof, or

(e) if any proceeding is instituted, with the consent or acquiescence of the NMFA, for the purpose of effecting a composition between the NMFA and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Revenues; or

(f) if (i) the NMFA is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the NMFA, a receiver, Trustee or custodian of the NMFA or of the whole or any part of their property and any of the aforesaid adjudications, orders, judgments or decrees is not vacated or set aside or stayed within 60 days from the date of entry thereof; or

(g) if the NMFA files a petition or answer seeking reorganization, relief or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the NMFA or of the whole or any substantial part of the property of the NMFA, and such custody or control is not terminated within 30 days from the date of assumption of such custody or control; or

(i) if the NMFA defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture or any Supplemental Indenture on the part of the NMFA to be performed, other than as set forth above in this section and such Default continues for 30 days after written notice specifying such Event of Default and requiring the same to be remedied has been given to the NMFA by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Remedies of the Trustee. If an Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce the rights of the Owners of the Bonds under the Indenture, including enforcing any rights under the Agreements and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds against the NMFA and any related Governmental Unit, and compel the NMFA and any related Governmental Unit, to perform or carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Indenture or in any Agreement (including the appointment of a receiver); or

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) intervene in judicial proceedings that affect the Bonds, the Agreements, or the security therefor; or

(d) exercise any or all remedies permitted under the Agreements or Security Documents; or

(e) cause the NMFA or any related Governmental Unit to account as if it were the Trustee of an express trust for all of the Revenues or Agreement Pledged Revenues, pledged under the Indenture or pursuant to the Agreements and any Security Documents.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by the Indenture may be enforced and exercised from time to time and as often as may be deemed expedient by the Trustee or the Owners.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners, the NMFA, and the Governmental Units will be restored to the former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Owners under the Indenture is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be extended without exhausting and without regard to any other remedy conferred by any law.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and the performance of the other agreements and covenants required to be performed by it contained in the Agreements and Security Documents, the Governmental Units will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Loan Payments, by the Trustee, or with respect to the performance by the NMFA of any right or obligation required to be performed by it contained in the Indenture or for the performance by any other Governmental Unit of such other Governmental Unit's obligations under an Agreement or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, for the appointment of a receiver or Trustee or for any other remedy, at law or in equity, unless:

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Owners of not less than a majority of the aggregate principal amount of the Bonds Outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;

(c) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

No one or more Owners has any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Bond Owners. Notwithstanding the foregoing, the Owner of any Bond has the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms of the Bonds and the Indenture and the principal of such Bond at the stated maturity of the Bonds and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights will not be impaired without the consent of such Owner.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee, provided that such direction is not in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Owners of Bonds.

Application of Funds Upon Default. All moneys received by the Trustee or by any receiver pursuant to any right given or action taken under the default provisions of the Indenture or under the provisions of the related Agreements, will, after payment of the reasonable costs and fees of, and the reasonable expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and all moneys so deposited during the continuance of an Event of Default (other than moneys deposited to the Bond Fund for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default), together with all moneys in the Funds maintained by the Trustee or the NMFA under the Indenture, will be applied as follows:

(a) Unless the principal of all Bonds shall have become due and payable, all such moneys will be applied, as follows:

First: To the payment to the persons or entity entitled thereto of all installments of interest then due on the Bonds, in the order of maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons or entity entitled thereto without any discrimination or privilege;

Second: To the payment to the persons or entity entitled thereto of the unpaid principal of and any of the Bonds which have become due (other than Bonds called for prepayment for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons or entities entitled thereto without any discrimination or privilege; and

Third: To be held for the payment to the persons entitled thereto as the same become due of the principal of, the premium, if any, and interest on the Bonds which may thereafter become due at maturity and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds becomes due and payable all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with the interest on overdue principal, as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other certificates, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee may determine, having due regard for the amount of such moneys available for such application in the future. Whenever the Trustee applies such moneys it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such date and of the Special Record Date in accordance with the Indenture. The Trustee will not be required to make payment to the holder of any unpaid Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and will do so upon the written request of the Registered Owners of (a) a majority in aggregate principal amount of all the Bonds then outstanding in respect of which Default in the payment of principal and interest exist, or (b) a majority in aggregate principal amount of the Bonds then Outstanding in the case of any other Event of Default; provided, however, that there will not be waived (i) any Event of Default in the payment of the principal of any Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such Event of Default has occurred on overdue installments of interest and all arrears of payments of principal and premium, if any, when due and all expenses of the Trustee, in connection with such Event of Default has been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the NMFA, the Trustee and the Registered Owners will be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any right consequent thereon.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The NMFA and the Trustee may, without consent of, or notice to, any of the Owners enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To provide for the issuance of Additional Bonds in accordance with the provisions of the Indenture;

(b) To cure any ambiguity or formal defect or omission in the Indenture;

(c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;

(d) To subject to the Indenture additional revenues, properties or collateral;

(e) To evidence the appointment of a separate Trustee or paying agent or the succession of a new Trustee or paying agent under the Indenture;

(f) To make any other change which in the judgment of the Trustee is not materially adverse to the interests of the Trustee or any of the Owners;

(g) To make any amendments with the prior written confirmation from of the Rating Agency that such amendments will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; and

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred upon the NMFA in the Indenture or any Governmental Unit or to grant additional powers or rights to the Trustee.

Supplemental Indentures Requiring Consent of Owners. Exclusive of supplemental indentures covered by the foregoing section and subject to the following terms and provisions and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing in this section or in the foregoing section will permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond, or (ii) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indentures, or (v) permit the creation of any lien ranking prior to the lien of the Indenture on the Trust Estate or any part thereof, or (vi) deprive the Owner of any Bond then outstanding of the lien created by the Indenture on the Trust Estate without the prior consent of 100% of the holders of the Bonds affected by such supplemental indenture. The Trustee may, but is not obligated to, enter into any such supplemental indenture which adversely affects the Trustee's rights, duties or immunities under the Indenture or the Agreements.

If at any time the NMFA requests the Trustee to enter into any such supplemental indenture for any of the purposes of this section, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be given by registered or certified mail to the owner of each Bond shown by the list of Owners kept at the office of the Trustee. Such notices will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners. If, within one hundred twenty (120) days or such longer period as the holders of not less than a majority in aggregate principal amount of the Bonds outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Governmental Units from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided, the Indenture will be and be deemed to be modified and amended in accordance therewith.

Amendment of Agreements and Security Documents.

(a) The NMFA will have the right to amend an Agreement and any existing Security Documents with the Consent of the Trustee and the related Governmental Unit without Bond Owners' consent, for one or more of the following purposes:

(i) to add additional covenants of the NMFA or the related Governmental Unit, as applicable, or to surrender any right or power conferred upon the NMFA or the related Governmental Unit;

(ii) to make any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment;

(iii) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained therein or in any amendment thereto which may be defective or inconsistent with any other provision contained therein or in the Indenture or in any amendment thereto or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under any Agreement, or Security Documents which in the judgment of the Trustee do not adversely affect the interests of the Owners of Bonds; or

(iv) to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

(b) If the NMFA or a Governmental Unit propose to amend an Agreement or related Security Documents in a manner not contemplated by (a) above the Trustee will notify the Owners of the Bonds of the proposed amendment and may consent thereto with the consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding.

Fees, Charges and Expenses of the Trustee

Upon an Event of Default, but only upon an Event of Default, the Trustee will have a right of payment prior to payment on account of interest or principal of, or premium, if any, on any Bond for the Trustee's advances, fees, costs and expenses incurred.

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APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic information is furnished for information only. The Bonds do not constitute a general obligation of the State and are special limited obligations of NMFA payable solely from the Trust Estate. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2004C Bonds do not constitute or give rise to a pecuniary liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004C BONDS."

Generally

The State was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 60% (mornings) to 30% (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from two inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per them and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990's, the State was the 12th fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent.

Most of this population growth is occurring in or near the large cities. There are three Metropolitan Statistical Areas (MSAs) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval and Valencia Counties; the Las Cruces MSA is in Doña Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Doña Ana.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table presents data on employment for the State by industry compiled by the State Department of Labor for the month of December 2003.

Employment by Industry Group[1]
December 2003

Industry	Employment
Agriculture and Goods-Producing Services	97,000
Natural Resources & Mining	14,500
Construction	47,000
Manufacturing	35,400
Wholesale Trade	22,000
Retail Trade	94,900
Transportation, Warehousing and Utilities	23,100
Information	15,900
Finance Activities	34,100
Professional and Business Services	88,900
Educational and Health Services	101,800
Leisure and Hospitality	80,000
Other Services	28,100
Government	200,300

(1) Employment is now categorized using the North American Industry Classification System (NAICS).

State of New Mexico
Wages and Salaries by NAICS Industry Sector, 2001-2002[(1)]
(thousands of dollars)

	New Mexico		United States	
	2002	2001	2002	2001
Farm Total	192,951	182,464	17,685,000	17,920,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	75,580	72,352	16,666,000	16,215,000
Mining	666,957	726,944	30,736,000	32,097,000
Utilities	216,337	229,847	40,099,000	39,566,000
Construction	1,431,508	1,482,156	272,627,000	271,845,000
Manufacturing	1,456,440	1,570,581	675,270,000	708,744,000
Wholesale Trade	861,505	835,454	280,848,000	284,348,000
Retail Trade	1,970,253	1,921,171	360,926,000	355,848,000
Transportation and Warehousing	662,802	650,276	162,181,000	165,135,000
Information	539,635	563,176	189,959,000	206,991,000
Finance and Insurance	866,615	818,885	369,350,000	373,025,000
Real Estate and Rental and Leasing	304,952	242,036	71,876,000	69,853,000
Professional and Technical Services	2,160,889	2,064,885	416,019,000	428,409,000
Management of Companies and Enterprises	235,023	239,155	117,596,000	118,350,000
Administrative and Waste Services	1,016,188	977,649	193,206,000	190,597,000
Educational Services	196,977	181,186	73,583,000	68,781,000
Health Care and Social Assistance	2,345,849	2,085,771	473,131,000	441,850,000
Arts, Entertainment and Recreation	133,628	128,377	51,507,000	49,419,000
Accommodation and Food Services	902,019	857,677	153,658,000	149,485,000
Other Services, Except Public Administration	701,297	641,277	156,621,000	146,152,000
Government and Government Enterprises	7,059,084	6,561,591	846,446,000	804,527,000
Non Farm Private Total	23,803,538	22,850,446	4,952,305,000	4,921,237,000
TOTAL	23,996,489	23,032,910	4,969,990,000	4,939,157,000

(1) Revised estimates were released April 27, 2004. These estimates incorporate the results of the comprehensive revision to the national income and product accounts released December 10, 2003. The revised estimates also reflect the incorporation of newly available and revised source data and improved estimating methodologies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

State of New Mexico
Civilian Labor Force, Employment and Unemployment in New Mexico and the United States, 1993-2003

	Civilian Labor Force (000)		Number Employed (000)		Unemployment Rate		
Year	**N.M.**	**U.S.**	**N.M.**	**U.S.**	**N.M.**	**U.S.**	**NM as % of U.S. Rate**
1993	761	129,200	703	120,259	7.7%	6.9%	112%
1994	782	131,056	733	123,060	6.3%	6.1%	103%
1995	797	132,304	747	124,900	6.3%	5.6%	113%
1996	807	133,943	742	126,708	8.1%	5.4%	150%
1997	826	136,297	774	129,558	6.2%	4.9%	127%
1998	845	137,673	793	131,463	6.2%	4.5%	138%
1999	824	139,368	778	133,488	5.6%	4.2%	133%
2000	854	142,583	812	136,891	5.0%	4.0%	123%
2001	860	143,734	819	136,933	4.8%	4.7%	102%
2002	875	144,863	828	136,485	5.4%	5.8%	93%
2003	897	146,510	840	137,736	6.4%	6.0%	107%

Source: New Mexico Department of Labor, Bureau of Labor Statistics, March 2004.

State of New Mexico
Per Capita Personal Income in New Mexico and the U.S., 1993-2003[(1)]

	Per Capita Income			Annual % Change	
Year	**New Mexico**	**U.S.**	**NM as % of U.S.**	**New Mexico**	**U.S.**
1993	16,959	21,346	79%	4.0%	2.3%
1994	17,631	22,172	80%	3.8%	3.7%
1995	18,426	23,076	80%	4.3%	3.9%
1996	19,029	24,175	79%	3.2%	4.5%
1997	19,698	25,334	78%	3.4%	4.6%
1998	20,656	26,883	77%	4.6%	5.8%
1999	21,042	27,939	75%	1.8%	3.8%
2000	22,134	29,847	74%	4.9%	6.4%
2001	23,928	30,527	78%	7.5%	2.2%
2002	24,823	30,906	80%	3.6%	1.2%
2003	25,541	31,632	81%	2.8%	2.3%

(1) Preliminary stated personal income estimates for 2003 and revised stated personal income estimates for 1969-2002 were released April 27, 2004. These estimates incorporate the results of the comprehensive revision to the national income and product accounts released December 10, 2003. The revised estimates also reflect the incorporation of newly available and revised source data and improved estimating methodologies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 2004.

APPENDIX D

CERTAIN INFORMATION CONCERNING THE GOVERNMENTAL UNIT WITH A REPAYMENT OBLIGATION IN EXCESS OF 5% OF REVENUES

Pursuant to the Continuing Disclosure Undertaking to be executed in connection with the Series 2004C Bonds, the NMFA agrees to provide with respect to any Governmental Unit whose Loan repayment obligations constitute more than 5% of the estimated annual Revenues in any year when the Series 2004C Bonds are outstanding (the "5% test"), information concerning the four-year history of the specific revenues constituting such Government Unit meeting the 5% test. Currently, the Albuquerque Bernalillo County Water Authority is the only Governmental Unit whose Loan repayment obligation meets the 5% test.

The Albuquerque Bernalillo County Water Utility Authority

Generally

Prior to December 2003, the City of Albuquerque, New Mexico (the "City") owned and operated a Joint Water and Sewer System. The Joint Water and Sewer System included certain water facilities and properties (the "Water System") and certain sanitary sewer facilities and properties (the "Sewer System," and, together with the Water System, the "Water/Sewer System"). In the 2003 Regular Session, the New Mexico Legislature adopted legislation (Laws 2003, Chapter 437, codified as NMSA 1978, Section 72-1-10) creating the Albuquerque-Bernalillo Water Utility Authority as a joint agency of the City and Bernalillo County. The Albuquerque Bernalillo County Water Utility Authority is doing business as the Albuquerque Bernalillo County Water Utility Authority ("ABCWUA"). The legislation provides that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Water/Sewer System shall be transferred to the ABCWUA. The ABCWUA and the City have entered into a franchise agreement pursuant to which ABCWUA pays 4% of the Water/Sewer System revenues to the City. The ABCWUA is comprised of a board of three City Councilors, three County Commissioners and the Mayor of the City. The legislation creating the ABCWUA also provides that the debts of the City payable from net revenues of the Water/Sewer System shall be debts of ABCWUA and that ABCWUA shall not impair the rights of any bondholders of outstanding debts of the Water/Sewer System. The legislation required the New Mexico Public Regulation Commission to audit the Albuquerque Water/Sewer System prior to the transfer of money, assets and debts to the ABCWUA.

To facilitate the transfer of the policy-making functions and operations of the Water/Sewer System to ABCWUA, the City, Bernalillo County and the ABCWUA entered into a Joint Powers Agreement on December 19, 2003, and a Memorandum of Understanding dated January 21, 2004, as amended by the First Amendment to Memorandum of Understanding dated April 7, 2004. The Joint Powers Agreement establishes the procedure for the issuance of revenue bonds or other obligations needed to finance the capital needs of the Water/Sewer System. The Memorandum of Understanding clarifies that the Water/Sewer System will continue to be managed and operated in accordance with all existing contracts, adopts the policies and procedures of the City and facilitates the transition of City and County assets under the control of the ABCWUA. The Water/Sewer System and its component assets have not been formally deeded by the City to the ABCWUA. In connection with the closing of the loan from the NMFA to the ABCWUA, general counsel to the ABCWUA will opine that, pursuant to Section 72-1-10, NMSA 1978 and other laws, the ABCWUA has full legal right, power and authority to own, operate and control the real and personal property comprising the Water/Sewer System, including the necessary New Mexico and federal permits and licenses required for its operation, without further formal transfer of title or rights relating to the Water/Sewer System under the provisions of other New Mexico or federal laws, rules or regulations.

Water System

The Water System provides water services to approximately 510,000 customers comprising approximately 88% of the residents of Bernalillo County, New Mexico. About one-third of unincorporated Bernalillo County residents are customers of the Water System. As of the end of Fiscal Year 2004, the Water System provided service to approximately 162,002 accounts, including 146,700 residential and 15,300 commercial, institutional and industrial accounts. Approximately 59% of the ABCWUA's water sales are for residential uses.

History of Water Users by Class
Average Number of Customers by Fiscal Year

Class	2000	2001	2002	2003	2004
Residential	131,618	134,014	137,081	140,347	146,656
Commercial	12,767	12,871	12,952	13,033	13,388
Institutional	1,638	1,660	1,683	1,712	1,836
Industrial	127	125	124	121	122
Total	146,150	148,670	151,840	155,213	162,002

Source: City of Albuquerque, Water Utility Department.

Water Usage(1)
2000-2004

Fiscal Year	Gallons Pumped (in 000s)	Gallons Billed (in 000s)	Percentage Billed
2000	36,635,000	32,392,830	88.42
2001	36,055,000	32,774,731	90.90
2002	36,004,000	32,050,716	89.02
2003	33,275,540	29,444,060	88.49
2004	34,669,000	30,682,065	88.50

(1) The ABCWUA distinguishes between gallons pumped and gallons billed. Gallons which are pumped but not billed include certain accounts billed on the basis of estimated usage, amounts lost due to line leakage and breakage, and fire protection usage which is not metered. The ABCWUA has adopted a policy to reduce unaccounted for water by 1% per year for the next four years by automating meters, testing and repairing fire hydrants and detecting line leakage.

Source: ABCWUA.

Ground water from the middle Rio Grande basin fill aquifer underlying the service area is presently the sole source of supply used for the Water System. The supply is produced from 93 wells grouped in 25 well fields located throughout the metropolitan area. Total well production capacity is approximately 294 million gallons per day ("MGD"). Maximum historical peak day demand is 214 MGD. A chlorination/fluoridation station associated with each well field satisfies the total required water treatment needs for the water produced in such well field.

Water Supply

Existing Water Resources.

The New Mexico Office of the State Engineer granted the Water System's 1993 application to appropriate ground water in the Middle Rio Grande Administrative Area on September 4, 2003. The new water rights permit allows the ABCWUA to withdraw ground water from the aquifer in the amount of 155,000 acre-feet per annum as follows:

Years	Annual Diversion Limit (acre-feet)
Thru 2015	132,100
2016 thru 2029	142,900
2030 and thereafter	155,000

The previous ground water permit limited the pumping to 132,000 acre-feet per year. The average annual withdrawal for the five years ending in Fiscal Year 2003 was 109,603 acre-feet, with a maximum of 114,792 acre-feet in Fiscal Year 2000.

In July 2003, the Water System began diversions of San Juan-Chama River water under the Non-potable Surface Water Reuse project. The ABCWUA currently has the right to use consumptively 72,265 acre feet of water per year, including imported water from a contract with the Department of the Interior for 48,200 acre-feet per year firm delivery from the San Juan-Chama project, vested water rights of 17,875 acre-feet dating from the Rio Grande Basin declaration in 1956 by the New Mexico State Engineer, and other water rights holdings totaling 6,190 acre-feet.

Water Supply Plan.

In the spring of 1997, the Albuquerque Water Resource Management Strategy ("AWRMS") was adopted as the Water System's water supply plan. The adopted AWRMS was the culmination of years of planning and technical investigations, cooperation with federal, state and local agencies and public involvement and education. The AWRMS: (1) calls for the Water System to more fully utilize its renewable water resources in order to reduce reliance on ground water to serve customers; (2) provides for limited reuse of industrial and municipal effluent to irrigate large turf areas and provide a non-potable industrial water supply source; (3) provides for the development of a ground water drought reserve, which was recommended by resource economists to provide for the Water System's anticipated year 2060 water demands even through a 10-year drought with no use of surface water (two million acre-feet); (4) includes recommended implementation and financing plans; and (5) recommends pursuit of regional solutions and several specific additional sources of water for the future.

The ABCWUA is implementing four specific projects identified in the AWRMS: the drinking water project and three water reclamation and reuse projects. The Water System submitted application to the State Engineer's Office on May 21, 2001 for diversion and full consumptive use of the Water System's San Juan-Chama water. The hearings on the permit were concluded in February 2003 with Findings and Recommendations submitted in April 2003. The Water System received a Draft Biological Opinion from the U.S. Fish &Wildlife Service on October 9, 2003. The opinion concluded that the effects of the Water System's project on endangered fish and wildlife will not cause jeopardy of the species, including the silvery minnow. The Water System received a Final Biological Opinion in February 2004. The Final EIS was published in March 2004 with the Record of Decision issued in April 2004. The State Engineer approved the application in July 2004. With the State and federal permitting complete, the ABCWUA is expected to begin construction of a drinking water supply project using the San Juan Chama water in the fall of 2004 and it is expected to be complete sometime in 2006.

Arsenic Standard Applicable to Water Supply.

The United States Environmental Protection Agency promulgated regulations in 2001 reducing the allowable amount of arsenic in municipal drinking water from 50 parts per billion to 10 parts per billion. The new standard becomes effective in 2006 and the ABCWUA must develop a treatment program to meet the new standard. The ABCWUA is currently evaluating and implementing tests of procedures on existing water wells that are designed to reduce the level of arsenic in the drinking water to meet the new standard. Long-term, ABCWUA plans to purify and blend surface water with well water to deliver drinking water in compliance with the new standard.

Water Conservation Program.

A water conservation program was initiated in 1995 in an effort to extend the lifetime of service area water resources. The goal of 30% reduction from baseline period water use to be attained by 2005 was established. During calendar years 1987 through 1993, the "baseline" period, gross community per capita water use averaged 250 gallons per day. Gross community water use will need to be reduced to 175 gallons per capita per day to achieve the 30% conservation savings goal. At the end of 2002, service area customers had reduced their use approximately 27% compared with use during the established baseline period. When weather is taken into account, through regression model analysis, comparative water usage was down by 30%. The ABCWUA will continue to take conservation strategy, goals and changes in use into account in developing revenue estimates and its financial planning for the Water System.

Ground Water Protection Plan.

In 1994, a joint Bernalillo County the Albuquerque/Bernalillo County Ground Water Protection Policy and Action Plan was adopted. This comprehensive plan is intended to prevent future contamination of the ground water aquifer under the service area, and to facilitate the identification and cleaning up of the contamination that now exists. The City and Bernalillo County have executed a Joint Powers Agreement for implementation of the Plan and have established a joint City/County Ground Water Protection Advisory Board. The Board is now guiding implementation, coordinating with Federal and State agencies for cleanup actions and evaluating progress to-date and changes needed to the Plan.

The ABCWUA's $120 million valley utilities project also is designed to eliminate ground water contamination. The project will provide 8,000 new connections to the Water/Sewer System and is expected to be financed by $30 million in new user rates and fees, $60 million in state and federal grant funds and $30 million in county bond proceeds.

Sewer System

The Sewer System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows by gravity to the Southside Water Reclamation Plant located south of the service area. The treatment plant provides preliminary screening, grit removal, primary clarification and sludge removal, advanced secondary treatment including ammonia and nitrogen removal, final clarification, and effluent chlorination and de-chlorination prior to discharge to the Rio Grande.

Treatment capacity has in the past been based on 76 MGD hydraulic capacity. Due to aging equipment in certain process areas that are pending capital program improvements, present capacity is rated in the range of 60 to 65 MGD. Existing flows at the plant are about 54 MGD. The ABCWUA has a fully operational industrial pretreatment program approved by the U.S. Environmental Protection Agency ("EPA") that was approved as a pilot program under the EPA's XL Program. Due to aggressive conservation and reuse efforts, ABCWUA expects the treatment capacity of the plant to be adequate for 10 to 15 years.

Water/Sewer System Financial Information

Historical Financial Information.

The following table compares revenues, expenses, and net revenues available for debt service over the past five Fiscal Years.

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Water/Sewer System
Historical Financial Information
Fiscal Years 2000-2004
($000)

	2000	2001	2002	2003	2004[1]
Total operating revenues	$104,196	$108,360	$115,272	$119,515	$132,602
Non-operating revenues (expenses):					
Interest	3,496	2,656	2,047	1,684	1,635
Expansion charges	10,780	10,909	11,909	14,433	15,112
Other	346	3,078	197	4,304	391
Gain (loss) on disposition of Property & Equipment	0	0	0	0	0
Total adjusted revenues	118,818	125,003	129,425	139,936	149,740
Total operating expenses (excluding interest expense)	100,107	100,286	100,496	103,786	111,985
Less:					
Payments in lieu of taxes	(4,102)	(4,310)	(4,643)	(4,779)	(5,111)
Depreciation	(41,670)	(37,070)	(39,355)	(40,844)	(39,163)
Amortization	(1,221)	(1,091)	(1,142)	(849)	(534)
Total adjusted operating expenses	53,114	57,815	55,356	57,314	67,177
Net revenues available for debt service	$ 65,704	$ 67,188	$ 74,069	$82,622	$82,563

(1) Unaudited.

Source: ABCWUA.

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Operating Revenue.

The following table outlines the revenue from water and sewer charges and other operating revenue received by the City over the past five Fiscal Years.

Revenue from Water and Sewer Charges and Other Operating Revenue

Fiscal Year	Revenue from Water Charges: For General Operations	Revenue from Water Charges: For AWRMS[2]	Revenue From Sewer Charges	Other Operating Revenue[3]	Total Operating Revenue
2000	$45,346,424	$7,310,019	$44,487,321	$7,051,933	$104,195,697
2001	46,504,223	9,954,245	44,898,231	6,966,656	108,323,355
2002	48,115,849	13,276,044	46,691,595	7,188,885	115,272,373
2003	47,176,063	16,410,278	44,602,059	11,327,409	119,515,809
2004[1]	50,163,000	21,573,094	47,027,532	13,839,282	132,602,908

(1) Unaudited.

(2) These revenues are attributable to rate increases adopted by City Council to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy ("AWRMS"). For more information on AWRMS and related rate increases, see "Water Supply — Water Supply Plan" herein.

(3) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

Source: ABCWUA.

Water/Sewer System Obligations

Outstanding Water/Sewer System Obligations.

The ABCWUA presently has outstanding the following the series of special limited obligations secured on a parity basis by net revenues of the Water/Sewer System.

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Outstanding Water/Sewer System Parity Obligations

Water and Sewer System Issue	Project Financed	Principal Amount Of Original Issue	Outstanding Principal Amount
Revenue Bonds, Series 1990A[(1)]	System Improvements	$50,821,710	$24,113,838
Refunding and Improvement Revenue Bonds, Series 1994A	Refunding and System Improvements	103,095,000	9,540,000
Revenue Bonds, Series 1995	System Improvements	38,940,000	14,100,000
Revenue Bonds, Series 1997	System Improvements	46,715,000	25,940,000
Refunding and Improvement Revenue Bonds, Series 1999A	Refunding and System Improvements	93,030,000	67,420,000
Refunding Revenue Bonds, Series 2000A	Refunding	26,375,000	9,090,000
Revenue Bonds, Series 2001A	System Improvements	30,000,000	29,700,000
NMFA-Public Project Revolving Fund Loan (2002)	System Improvements	450,000	389,384
NMFA Drinking Water State Revolving Fund Loan (2002)	System Improvements	2,450,000	2,108,605
NMFA Drinking Water State Revolving Fund Loan (2003)	System Improvements	3,600,000	3,331,661
NMFA-Public Project Revolving Fund Loan (2004)[(2)]	System Improvements	118,415,000	118,415,000
NMFA Drinking Water State Revolving Fund Loan (2004)[(3)]	System Improvements	12,000,000	12,000,000
Total		**$523,891,710**	**$314,148,488**

(1) These bonds were issued as capital appreciation bonds and the amount shown as outstanding is the accreted value as of January 1, 2004.

(2) This loan is expected to close on or about October 13, 2004.

(3) This loan is expected to close before the end of the calendar year 2004.

Total Combined Debt Service
Outstanding Water/Sewer System Parity Obligations [1]

Parity System Obligations

Calendar Year	Series 1990A Bonds[2]	Series 1994A Bonds	Series 1995 Bonds	Series 1997 Bonds	Series 1999A Bonds	Series 2000A Bonds	Series 2001 Bonds	2002 NMFA PPRF Loan	2002 NMFA DWRLF Loan	2003 NMFA DWRLF Loan	2004 NMFA PPRF Loan[3]	Total Annual Combined Debt Service Payment[4]
2004	$ 1,315,000	$ 9,979,690	$ 5,273,800	$ 5,914,475	$13,535,238	$4,528,500	$ 1,360,335	$48,474	$247,115	$ 356,339		$42,558,966
2005	1,260,000	9,978,840	5,276,000	5,922,150	9,786,488	4,584,500	3,952,335	48,476	247,129	340,352	$4,969,836	46,366,106
2006	5,965,000		5,275,200	5,934,375	11,396,238	5,208,000	3,986,273	48,479	247,143	340,366	8,302,470	46,363,178
2007	11,365,000		5,273,500	5,945,438	11,444,738		4,013,073	48,482	247,157	340,380	6,204,079	44,881,847
2008	11,365,000			5,964,863	12,535,238		4,031,848	48,484	247,172	340,395	6,704,279	41,237,279
2009				5,991,700	12,533,950		4,059,460	48,488	247,187	340,409	7,674,695	30,895,889
2010					12,539,575		4,080,273	48,492	247,203	340,423	10,460,749	27,716,715
2011					12,535,275		4,109,285	48,496	247,219	340,439	10,790,991	28,071,705
2012							4,135,860	48,500	247,235	340,455	11,337,609	16,109,659
2013							4,159,100	48,505	247,252	340,370	11,268,609	16,063,836
2014								48,510	247,269	340,486	11,190,641	11,826,906
2015										340,503	10,811,265	10,811,265
2016											12,294,715	12,294,715
2017											6,922,815	6,922,815
2018											6,987,864	6,987,864
2019											7,059,774	7,059,774
2020											7,126,834	7,126,834
2021											7,203,185	7,203,185
2022											7,271,577	7,271,577
2023											3,432,052	3,432,052
2024											2,932,104	2,932,104
Total	**$31,270,000**	**$19,958,530**	**$21,098,500**	**$35,673,001**	**$96,306,740**	**$14,321,000**	**$37,887,842**	**$ 533,386**	**$ 2,719,081**	**$3,420,048**	**$160,946,140**	**$424,134,268**

(1) The rate covenant described below relates to all Water/Sewer System obligations, including the four Wastewater Loans listed in the previous table which are payable on a subordinate basis to the parity obligations shown in this table. The ABCWUA is presently obligated to pay aggregate average annual debt service on the Wastewater Loans equal to $2,924,684, and the maximum calendar year debt service on such Wastewater Loans is $4,636,294 (occurring in 2008).

(2) Accreted value shown as of January 1.

(3) Loan to be funded with proceeds of the Series 2004C Bonds.

(4) Does not include the 2004 NMFA Drinking Water State Revolving Fund Loan in the amount of $12,000,000, the terms of which have not been determined as of the date hereof.

Current Ratings of the Water/Sewer System Parity Obligations.

The outstanding Water/Sewer System parity obligations are currently rated "Aa3" by Moody's, "AA" by S&P and "AA" by Fitch. Certain of these bonds are credit enhanced and therefore have a different rating which is based on the rating of the credit enhancer rather than the rating for such bonds.

Rate Comparisons

The ABCWUA strives to keep water and sewer rates at a competitive level compared to the surrounding southwest area. Based on results for the 50 largest cities in the United States extracted from a recent water/wastewater survey by Black & Veatch Enterprise Consulting Division, Albuquerque was ranked (from lowest to highest) at or below average for water and sewer rates, 23rd for water and 16th for sewer, of the 50 communities surveyed on typical monthly combined residential water and sewer bills, based upon a usage of 15,000 gallons. The rates have increased over the past six years to provide for the financing of the development of a new surface water supply system for drinking water. The ABCWUA, by policy, has adopted a cost of service rate model. A consultant is in the process of developing a methodology for calculating water and wastewater rates. The ABCWUA expects the study to be completed by the end of calendar year 2004 and expects to implement a new rate structure effective July 2005.

Water/Sewer Billing and Collections

All rates and charges are imposed by the ABCWUA, as successor to the City, through a Water and Sewer Rate Ordinance. Charges are billed to the property and are the responsibility of the property owner (except in cases of leased property in which the ABCWUA, as successor to the City, is notified that the tenant will have payment responsibility). Property liens may be filed and foreclosed as provided by State law.

Pursuant to contract, the City performs all meter reading services in connection with the Water/Sewer System. Meters are read and billed once each month. Customers are billed within the same approximate time frame each month depending upon the location of the customer. Customers are billed the same day their meters are read. The payment is delinquent if not made within 15 days following the due date on a utility statement. The [City] may cause the water supply to be turned off and discontinue service to the property if any charge remains unpaid for a period of 30 days from the original due date on the customer's utility statement. A penalty of 1.5% per month may be imposed on any delinquent account.

Historically, the delinquency rate has been less than 1%. However, the ABCWUA is implementing a more aggressive collection policy designed to decrease delinquency rates by 50% during FY 2005.

Current Levels of Base Rates and Charges.

Customers pay fixed rates for water and sewer services as well as additional charges which vary depending on the volume of water used or discharged. Since July 1, 2004, residential customers have been paying fixed water rates (depending on service size) between $8.08 and $801.97, while commercial customers have been paying between $13.00 and $1,359.76. For sewer service as of July 1, 2004, residential customers have been paying a fixed rate (depending on service size) between $8.00 and $899.02, while commercial customers have been paying between $12.35 and $1,453.51.

Capital Implementation Program for the Water/Sewer System.

The ABCWUA anticipates the need to finance capital improvements for the basic Water/Sewer System and the San Juan Chama diversion project. The Water/Sewer System has reoccurring annual capital improvement needs for regular system improvements, expansion, maintenance and upgrades of approximately $36 million per year over the next eight years, totaling $288 million. The ABCWUA expects to borrow or issue debt to finance its basic Water/Sewer System capital improvement needs through a combination of financing sources including a New Mexico Finance Authority Drinking Water Revolving Loan Fund loan, a New Mexico Finance Authority Public Project Revolving Fund loan, a New Mexico Environment Department loan and public offerings. Such debt will have 12 year final maturities and is expected to be 50% cash funded.

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APPENDIX E

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

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[Form of Modrall, Sperling, Roehl, Harris & Sisk, P.A. Opinion]

__________, 2004

New Mexico Finance Authority
409 St. Michael's Drive
Santa Fe, New Mexico 87505

Bank of Albuquerque, N.A.
Trust Division
201 Third Street, Suite 1400
Albuquerque, New Mexico 87102

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds, Series 2004C

We have acted as bond counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Public Project Revolving Fund Revenue Bonds, Series 2004C in the aggregate principal amount of $__________ (the "Series 2004C Bonds"). The Series 2004C Bonds are being issued for the purpose of providing funds (i) make loans to, or to reimburse the NMFA for loans previously made to or for securities previously purchased from, certain governmental units within the State of New Mexico (each a "Governmental Unit") to finance a public project for the use and benefit of the respective Governmental Unit, and (ii) to pay the costs of issuance of the Series 2004C Bonds.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 *et seq*., NMSA 1978, as amended and supplemented (the "Act"). The Series 2004C Bonds are authorized to be issued under and secured by a General Indenture of Trust and Pledge dated June 1, 1995, as heretofore amended and supplemented (the "General Indenture"), and as further amended and supplemented by a Sixty-fourth Supplemental Indenture of Trust dated as of October 1, 2004 (the "Sixty-fourth Supplemental Indenture", and collectively with the General Indenture, the "Indenture") between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The NMFA has previously issued other series of its Public Project Revolving Fund Revenue Bonds which are outstanding under the Indenture (the "Outstanding Parity Bonds", and sometimes together with the Series 2004C Bonds, the "Bonds"), and the Series 2004C Bonds are issued and secured with a lien on the Trust Estate on a parity with the lien of the Outstanding Parity Bonds on the Trust Estate.

We have reviewed the Indenture, an opinion of the Attorney General of the State, as counsel to the NMFA, certificates of the NMFA, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceeding and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, it is our opinion that:

1. The NMFA is a public body politic and corporate duly organized and validly existing under the laws of the State of New Mexico, and has lawful authority to issue the Series 2004C Bonds.

2. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Trust Estate pledged under the Indenture to secure the

payment of and the principal of and interest on Bonds subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2004C Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Trust Estate and do not constitute a debt or liability of the State of New Mexico, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2004C Bonds and the enforceability thereof and of the Indenture maybe subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Series 2004C Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2004C Bonds or any other offering material relating to the Series 2004C Bonds and we express no opinion relating thereto;

(d) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result; and

(e) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

Respectfully submitted,

[Form of Opinion of Ballard Spahr Andrews & Ingersoll, LLP]

__________, 2004

New Mexico Finance Authority
409 St. Michael's Drive
Santa Fe, New Mexico 87505

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds - Series 2004C

We have acted as special tax counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Public Project Revolving Fund Revenue Bonds, Series 2004C in the aggregate principal amount of $__________ (the "Series 2004C Bonds"). The Series 2004C Bonds are being issued for the purpose of providing funds to (i) make loans to, or to reimburse the NMFA for loans previously made to or for securities previously purchased from certain governmental units within the State of New Mexico (each a "Governmental Unit") to finance a public project for the use and benefit of the respective Governmental Unit, and (ii) pay costs of issuance.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004C Bonds. The NMFA and each Governmental Unit whose loans are being financed with proceeds of the Series 2004C Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004C Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and each such Governmental Unit with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2004C Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as follows:

1. Interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Under the laws of the State of New Mexico as enacted and construed on the date hereof, interest on the Series 2004C Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2004C Bonds; and

(b) although we have rendered an opinion that interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds.

Respectfully submitted,

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2004C Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2004C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004C Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations provided details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2004C Bonds, except in the event that use of the book-entry system for the Series 2004C Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004C Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2004C Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2004C Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2004C Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the NMFA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2004C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Series 2004C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the NMFA or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2004C Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA and the Underwriters believe to be reliable, but neither the NMFA nor either of the Underwriters takes any responsibility for the accuracy thereof.

NEITHER THE NMFA NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE SERIES 2004C BONDS, REFERENCES HEREIN TO THE BONDHOLDERS OF THE SERIES 2004C BONDS WILL MEAN CEDE & CO., AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2004C BONDS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the NMFA does not have responsibility for distributing such notices to the Beneficial Owners.

The NMFA does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2004C Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2004C Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Series 2004C Bonds.

APPENDIX G

SPECIMEN INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader
President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro
Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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NEW ISSUE – BOOK-ENTRY ONLY

DAC Bond

Ratings: *Moody's: Aaa*
S & P: AAA
Fitch: AAA
(See "RATINGS.")

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the 2005 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the 2005 Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds. See "TAX MATTERS."

$19,015,000
NEW MEXICO FINANCE AUTHORITY
Public Project Revolving Fund
Revenue Bonds
Series 2005A

$13,500,000
NEW MEXICO FINANCE AUTHORITY
Public Project Revolving Fund
Refunding Revenue Bonds
Series 2005B

Dated: Delivery Date

Due: June 1, as shown on inside cover

The New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds, Series 2005A (the "Series 2005A Bonds") and Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B (the "Series 2005B Bonds" and, together with the Series 2005A Bonds, the "2005 Bonds"), are being issued as fully registered bonds in denominations of $5,000 or any integral multiple of $5,000. The Depository Trust Company will act as securities depository for all of the 2005 Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each series and maturity of the 2005 Bonds will be registered in the name of Cede & Co. Individual purchases of 2005 Bonds will be made in book-entry form only, and beneficial owners of the 2005 Bonds will not receive physical delivery of bond certificates, except as described in this Official Statement. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the 2005 Bonds.

The 2005 Bonds will be issued under and secured by a General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously amended and supplemented, and as amended and supplemented by a Sixty-Fifth Supplemental Indenture of Trust, dated as of June 1, 2005 (collectively, the "Indenture"), each between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as Trustee. Interest on the 2005 Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2005. Principal of the 2005 Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedules on the inside front cover.

SEE MATURITY SCHEDULES
ON INSIDE FRONT COVER

The 2005 Bonds are subject to redemption prior to maturity.

Proceeds of the 2005 Bonds will be used by the NMFA to (1) advance refund certain outstanding Public Project Revolving Fund Bonds, (2) reimburse the Public Project Revolving Fund for loans made by the NMFA to governmental entities for the purpose of funding public projects, and (3) pay the costs of issuance of the 2005 Bonds. The principal of and premium, if any, and interest on the 2005 Bonds and additional bonds issued or to be issued are payable solely from and secured solely by the Trust Estate, which includes revenues from the repayment of certain loans to governmental entities, the NMFA Portion of the Governmental Gross Receipts Tax, and certain moneys in funds and accounts. The NMFA has issued or incurred and expects to issue or incur parity bonds and other obligations pursuant to the Indenture.

The 2005 Bonds and additional bonds issued or to be issued are special limited obligations of the NMFA payable solely from and secured solely by the Trust Estate. The 2005 Bonds do not constitute or create a general obligation or other indebtedness of the State of New Mexico, the NMFA or any governmental unit within the meaning of any constitutional or statutory debt limitation. No provision of the 2005 Bonds will be construed or interpreted as creating a delegation of governmental powers or as a donation by or lending of the credit of the NMFA, the State or any Governmental Unit within the meaning of the Constitution of the State. The NMFA has no taxing powers. The 2005 Bonds do not constitute or give rise to personal liability on the part of the members, directors or officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Payment of the principal of and interest on each series of the 2005 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the 2005 Bonds. See "BOND INSURANCE."

MBIA

Certain legal matters will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the 2005 Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, for the NMFA, by Sutin, Thayer & Browne A Professional Corporation, Disclosure Counsel to the NMFA, and by Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico, for the Underwriters. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the 2005 Bonds. It is expected that a single certificate for each maturity of each series of the 2005 Bonds will be delivered to DTC or its agent on or about August 1, 2005. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the 2005 Bonds.

RBC Dain Rauscher

Cabrera Capital Markets, Inc.

Dated: June 30, 2005

Maturity Schedules

$19,015,000 Public Project Revolving Fund Revenue Bonds, Series 2005A

Year (June 1)	Principal Amount	Interest Rate	Price	CUSIP Numbers
2006	$ 920,000	3.000%	100.243%	64711M G43
2007	1,500,000	3.000	100.459	64711M G50
2008	1,450,000	3.000	100.348	64711M G68
2009	1,640,000	4.000	103.555	64711M G76
2010	1,460,000	4.000	103.870	64711M G84
2011	1,230,000	4.000	103.898	64711M G92
2012	1,305,000	4.000	103.442	64711M H26
2013	1,345,000	4.000	103.257	64711M H34
2014	1,185,000	5.000	110.348	64711M H42
2015	1,185,000	5.000	110.716	64711M H59
2016	1,185,000	5.000	109.764	64711M H67
2017	540,000	3.750	98.305	64711M H75
2018	440,000	4.000	99.598	64711M H83
2019	455,000	4.000	98.843	64711M H91
2020	475,000	4.000	98.128	64711M J24
2021	495,000	4.000	97.473	64711M J32
2022	520,000	4.125	98.149	64711M J40
2023	535,000	4.125	97.466	64711M J57
2024	565,000	4.250	98.591	64711M J65
2025	585,000	4.250	98.023	64711M J73

$13,500,000 Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B

Year (June 1)	Principal Amount	Interest Rate	Price	CUSIP Numbers
2006	$ 180,000	3.000%	100.144%	64711M L70
2007	95,000	3.000	100.210	64711M L88
2008	560,000	3.000	99.916	64711M L96
2009	520,000	3.100	99.710	64711M M20
2010	1,770,000	3.250	99.686	64711M M38
2011	1,000,000	4.500	105.446	64711M M46
2012	425,000	3.500	99.215	64711M M53
2012	1,000,000	4.500	105.218	64711M L62
2013	1,100,000	3.600	99.254	64711M M61
2014	1,150,000	3.750	99.549	64711M M79
2015	1,190,000	3.750	98.780	64711M M87
2016	1,235,000	3.750	97.729	64711M M95
2017	1,280,000	4.000	98.880	64711M N29
2018	715,000	4.000	97.832	64711M N37
2019	870,000	4.125	98.287	64711M N45
2020	410,000	4.250	98.910	64711M N52

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the 2005 Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, any Governmental Unit or others since the date of this Official Statement.

THE PRICES AT WHICH THE 2005 BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGE. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE 2005 BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The 2005 Bonds have not been registered under the Securities Act of 1933, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such Acts. The registration and qualification of the 2005 Bonds in accordance with applicable provisions of the securities laws of the states in which the 2005 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the 2005 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

NEW MEXICO FINANCE AUTHORITY
207 Shelby Street
Santa Fe, New Mexico 87501
Telephone: (505) 984-1454
Facsimile copy: (505) 984-0002

Board of Directors

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Joanna Prukop, Secretary
Craig Reeves, Treasurer
Gary Bland
John A. Carey
Gustavo Cordova
Ron Curry
Edward Garcia
Rick Homans
James Jimenez
James L. McDonough

Executive Director
William C. Sisneros

NMFA Counsel
Office of the Attorney General
State of New Mexico

Virtue Najjar & Brown PC
Santa Fe, New Mexico

Financial Advisor
Western Financial Group, LLC
Lake Oswego, Oregon

Bond Counsel
Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

Special Tax Counsel
Ballard Spahr Andrews & Ingersoll, LLP
Salt Lake City, Utah

Disclosure Counsel
Sutin, Thayer & Browne A Professional Corporation
Albuquerque and Santa Fe, New Mexico

Trustee, Registrar and Paying Agent
Bank of Albuquerque, N.A.
Albuquerque, New Mexico

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INTRODUCTION

This Official Statement, which includes its cover page and appendices, provides certain information in connection with the offer and sale of the Public Project Revolving Fund Revenue Bonds, Series 2005A ("Series 2005A Bonds") and Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B (the "Series 2005B Bonds" and, together with the Series 2005A Bonds, the "2005 Bonds"), being issued by the New Mexico Finance Authority (the "NMFA"). The 2005 Bonds, together with additional bonds the NMFA has issued or may issue in parity with them, are collectively referred to as the "Bonds." Capitalized terms used and not defined have the meanings specified in the General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously supplemented and amended (the "General Indenture"), between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee (the "Trustee"), and as further supplemented and amended by the Sixty-Fifth Supplemental Indenture of Trust, dated as of June 1, 2005 (the "Sixty-Fifth Supplemental Indenture"), between the NMFA and the Trustee, and are presented in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" under the caption "CERTAIN DEFINITIONS." The General Indenture and all Supplemental Indentures are collectively referred to as the "Indenture."

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the 2005 Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State of New Mexico (the "State") in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations and to provide assistance and advice on the NMFA's Public Project Revolving Fund Program. The NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor's Finance Council (on which the NMFA's Chairman and Executive Director sit). For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY" and the NMFA's financial statements included as Appendix A.

Purposes of the 2005 Bonds

Proceeds from the sale of the 2005 Bonds will be used by the NMFA to (1) advance refund certain outstanding Public Project Revolving Fund Bonds (the "Refunded Bonds," as more fully described under the caption "THE PLAN OF FINANCING – Purposes of the 2005 Bonds") if and to the extent present value debt service savings can be achieved under prevailing market conditions at the time of the pricing of the Series 2005B Bonds, (2) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of financing public projects, and (3) pay the costs of issuance of the 2005 Bonds. See "THE PLAN OF FINANCING." See also Appendix H for a list of the Governmental Units and the allocable portions of the Loans financed with the Series 2005A Bonds.

Parity Bonds

Bonds with a lien on the Trust Estate in parity with the lien of the 2005 Bonds have been issued and may be issued to provide loans and grants to and to purchase securities from Governmental Units. For a description of the Bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds."

Subordinate Bonds

Bonds with a lien on certain amounts in the Trust Estate subordinate to the lien of the 2005 Bonds have been issued and may be issued to provide loans to and to purchase securities from certain other Governmental Units. For a description of the subordinate bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Debt."

Authority for Issuance

The 2005 Bonds are being issued under the authority of and pursuant to the laws of the State, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.*, NMSA 1978, as amended (the "Act"), and the Indenture. For a description of the Public Project Revolving Fund Program, see "NEW MEXICO FINANCE AUTHORITY – The Public Project Revolving Fund Program."

Terms of the 2005 Bonds

Payments

The 2005 Bonds will be dated the Delivery Date. Interest on the 2005 Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2005. The 2005 Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity) and will bear interest at the rates shown on the inside front cover.

Denominations

The 2005 Bonds are issuable in denominations of $5,000 or integral multiples of $5,000.

Book-Entry System

Individual purchases will be made in book-entry form only, and the purchasers of the 2005 Bonds will not receive physical delivery of bond certificates, except as more fully described in Appendix E – "BOOK-ENTRY ONLY SYSTEM." Payments of principal of and interest on the 2005 Bonds will be made directly to The Depository Trust Company ("DTC") or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Upon receipt of such payments, DTC is to remit such payments to the DTC Participants (as defined below) for subsequent disbursement to the beneficial owners of the 2005 Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the 2005 Bonds are in book-entry only form, references in other sections of this Official Statement to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the 2005 Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption

The 2005 Bonds are subject to redemption prior to maturity. See "THE 2005 BONDS – Redemption."

Security and Sources of Payment for the Bonds

Special Limited Obligations

The Bonds, including the 2005 Bonds, are special limited obligations of the NMFA secured by and payable solely from the Trust Estate, which includes the Revenues described below and certain funds and accounts created and maintained pursuant to the Indenture. The Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision.

Revenues

Revenues are defined by the General Indenture to mean:

- all revenues received or earned by the NMFA from or attributable to certain loan agreements (the "Agreements") (but excluding amounts paid as Program Costs),

- all revenues received or earned by the NMFA from or attributable to loans made or securities purchased from moneys in the Public Project Revolving Fund and pledged as "Additional Pledged Loans" under the Indenture,

- all revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax, and

- all interest earned on and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund).

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement; provided, however, that all earnings received on each Governmental Unit's Account will be allocated solely to the benefit of such Governmental Unit. For a description of the Agreements, the NMFA Portion of the Governmental Gross Receipts Tax and the Additional Pledged Loans, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues." For a description of the funds and accounts created by the Indenture, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Flow of Funds." See also Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Additional Bonds

The NMFA maintains an ongoing program to provide loans and to purchase securities from Governmental Units and expects to finance those activities with the issuance of Additional Bonds in parity with the 2005 Bonds. The timing, amount and other details of such parity bonds are not known as of the date of this Official Statement.

The NMFA must meet certain requirements prior to the issuance of Additional Bonds or other obligations with a lien on the Trust Estate in parity with the lien of the 2005 Bonds. For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds." For a discussion of the outstanding Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds." The NMFA may not issue bonds or other indebtedness payable with a priority senior to the lien on the Trust Estate of the 2005 Bonds without the written consent of 100% of the owners of Outstanding 2005 Bonds. The NMFA has issued, and may in the future issue, indebtedness having a lien on the Trust Estate subordinate to that of the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Debt.”

Bond Insurance

Payment of scheduled principal of and interest on the 2005 Bonds will be insured pursuant to a financial guaranty insurance policy (the “2005 Bond Insurance Policy”) to be issued by MBIA Insurance Corporation (the “2005 Bond Insurer”) concurrently with the delivery of the 2005 Bonds. See “BOND INSURANCE.”

Continuing Disclosure

The NMFA has undertaken for the benefit of the Bond Owners that, so long as the 2005 Bonds remain outstanding, the NMFA will provide certain annual financial information, operating data and audited financial statements with respect to the NMFA and each Governmental Unit expected by the NMFA to have loan repayment obligations in the then-current fiscal year constituting more than 20% of the estimated Revenues in the then-current fiscal year to each nationally recognized municipal securities information repository and notice of certain material events to the Municipal Securities Rulemaking Board in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in “CONTINUING DISCLOSURE UNDERTAKING.”

In September 2004, the NMFA discovered that for fiscal years 2000-01, 2001-02 and 2002-03, certain information required to be filed under the terms of its continuing disclosure undertakings in effect at that time was not filed. The NMFA has since filed the information and believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings. The NMFA engaged Digital Assurance Certification, L.L.C., as dissemination agent, to assist with continuing disclosure compliance matters. See “CONTINUING DISCLOSURE UNDERTAKING.”

Tax Considerations

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the 2005 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

In the opinion of such Special Tax Counsel to the NMFA, under existing laws of the State of New Mexico as currently enacted and construed, interest on the 2005 Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds.

The form of opinion to be delivered by Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, is included in Appendix D. For a discussion of such opinion and certain other tax consequences incident to the ownership of the 2005 Bonds, see “TAX MATTERS.”

Professionals Involved in the Offering

At the time of the issuance and sale of the 2005 Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in the form included in Appendix D and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under “TAX MATTERS” in the form included in Appendix D. Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico, counsel for the Underwriters, the Office of the Attorney General for the State of New Mexico, Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer’s Counsel to the NMFA, and Sutin, Thayer & Browne A Professional Corporation, Albuquerque and Santa Fe, New Mexico, Disclosure Counsel to the NMFA, will deliver their respective opinions regarding certain legal matters. See "LEGAL MATTERS." Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the 2005 Bonds. See "FINANCIAL ADVISOR."

The NMFA's financial statements for the fiscal year ended June 30, 2004, included in Appendix A, have been audited by Neff + Ricci, LLP, certified public accountants, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS."

Offering and Delivery of the 2005 Bonds

The 2005 Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate for each series and maturity of the 2005 Bonds will be delivered to DTC or its agent on or about August 1, 2005. The 2005 Bonds will be distributed in the initial offering by RBC Dain Rauscher Inc. and Cabrera Capital Markets, Inc. (the "Underwriters"), for which RBC Dain Rauscher Inc. is acting as managing underwriter and representative of the Underwriters (in that role, the "Representative").

Other Information

This Official Statement speaks only as of its date, and the information in it is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents in this Official Statement do not purport to be complete, and reference is made to those laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and any purchaser or holder of the 2005 Bonds.

THE 2005 BONDS

Generally

The 2005 Bonds are being issued pursuant to the Act, the Indenture, and a resolution adopted by the NMFA. The 2005 Bonds are being issued to (1) advance refund certain outstanding bonds of the NMFA issued for the purpose of financing public projects, and (2) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain Governmental Units for the purpose of funding public projects, as described in greater detail below, as part of the NMFA's Public Project Revolving Fund Program. For a description of the program, see "NEW MEXICO FINANCE AUTHORITY – The Public Project Revolving Fund Program." For a description of the Refunded Bonds and the Plan of Financing, see "THE PLAN OF FINANCING." For a description of certain provisions of the Indenture, see Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." Copies of the approved forms of the General Indenture and the Sixty-Fifth Supplemental Indenture are available as described under "ADDITIONAL INFORMATION."

Description of the 2005 Bonds

The 2005 Bonds will be dated as of the Delivery Date. Interest will accrue on the 2005 Bonds from their Delivery Date at the rates presented on the inside front cover page of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), and is payable on June 1 and December 1 of each year, commencing December 1, 2005. The 2005 Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front cover (unless redeemed prior to maturity). The 2005 Bonds are issuable in denominations of $5,000 or integral multiples of $5,000 (the "Authorized Denominations").

Book-Entry Only System

The Depository Trust Company will act as securities depository for all of the 2005 Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount and maturity of each series of the 2005 Bonds will be registered in the name of Cede & Co. Individual purchases of 2005 Bonds will be made in book-entry form only, and beneficial owners of the 2005 Bonds will not receive physical delivery of bond certificates, except as described in Appendix E. Upon receipt of payments of principal and interest, DTC will remit such payment to DTC participants for subsequent disbursement to the beneficial owners of the 2005 Bonds. For a more complete description of the book-entry only system, see Appendix E – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Generally

The 2005 Bonds are subject to optional redemption and, in the case of the Series 2005B Bonds only, extraordinary optional redemption upon prepayment of Loans prior to maturity, as described below.

Optional Redemption by the NMFA

The 2005 Bonds of each series maturing on or after June 1, 2016 are subject to optional redemption at any time on and after June 1, 2015, in whole or in part, in such order of maturity as may be selected by the NMFA and by lot within each maturity (if in part, in integral multiples of $5,000), at the option of the NMFA, upon notice as provided in the Indenture and at the redemption price of 100% of the principal amount of the 2005 Bonds to be redeemed, plus accrued interest to the redemption date, but without premium.

Extraordinary Optional Redemption of Series 2005B Bonds Upon Prepayment of Loans

The NMFA covenants pursuant to the Sixty-Fifth Supplemental Indenture to elect one or more of several options for the purpose of matching both (1) prepayments of Loans financed with proceeds of the Refunded Bonds and (2) the overall debt service requirements for all Bonds with Loan Payments on all Loans, as further described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Application of Loan Prepayments." While the NMFA currently expects that it will, if practicable, elect to originate new Loans with any such Loan prepayments, it also will have the right to redeem Series 2005B Bonds. The Series 2005B Bonds are subject to redemption at the option of the NMFA at any time if the NMFA has received a Prepayment of all or a portion of a Loan originated with proceeds of the Refunded Bonds and has determined that it would be impracticable to originate a new Loan or Loans within 180 days following the receipt of the Prepayment funded with a "Tax-Exempt Financing," as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Application of Loan Prepayments."

The Series 2005B Bonds to be redeemed in this manner must be in Authorized Denominations, in an aggregate principal amount approximating the amount of the portion of the Prepayment to be applied to redemption. The principal amount and maturity date of the Series 2005B Bonds to be redeemed must correspond, to the extent practicable, to the principal amount and due date of the Principal Component of the Prepayment.

The Series 2005A Bonds are not subject to extraordinary optional redemption.

Notice of Redemption

In the event any of the Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Registered Owners of Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days, but not more than 60 days, prior to the redemption date.

In addition, further notice of any redemption of Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Registered Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the Bonds. Failure to give all or any portion of such further notice will not in any manner defeat the effectiveness of a call for redemption.

If at the time of mailing of any notice of redemption there are not on deposit with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Registered Owners of Bonds or portions thereof redeemed but who failed to deliver Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Registered Owners will not affect the validity of the proceedings for the redemption of the Bonds.

Partially Redeemed Bonds

In case any Bond is redeemed in part, upon the presentation of such Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the NMFA, a Bond or Bonds of the same series, interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Bond. A portion of any Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or an integral multiple thereof and, in selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Bonds by $5,000.

Defeasance

When a Bond has been deemed to be paid under the Indenture, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment. Any Bond will be deemed to be paid for all purposes of the Indenture when (1) the principal of and the applicable premium, if any, on such Bond (whether at maturity or prior redemption) plus interest on the Bond to the Bond's due date either have been paid or have been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent shall have irrevocably set aside exclusively for such payment moneys sufficient to make such payment, and/or noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (2) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special Limited Obligations

The Bonds, including the 2005 Bonds, are special limited obligations of the NMFA payable solely from the "Trust Estate." The Bonds do not constitute nor create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Trust Estate

In the Indenture, the NMFA pledges and assigns the Trust Estate for the equal and ratable payment of the Bonds. The Trust Estate includes:

- the Revenues, as described below under the caption "Revenues,"
- proceeds of the Bonds (until used as provided in the Indenture) and
- other moneys and securities held in the funds and accounts established and maintained by the Trustee under the Indenture, other than:
    - moneys and securities held in the Rebate Fund and any Agreement Reserve Account,
    - any Rebate Requirement not yet deposited in the Rebate Fund, and
    - certain moneys for the redemption or defeasance of Bonds.

As discussed under "Flow of Funds" below, revenues received from a Governmental Unit by the Trustee on behalf of the NMFA pursuant to a Loan Agreement are deposited in a separate account of the Debt Service Fund established for that Governmental Unit and are periodically transferred by the Trustee to the Bond Fund and used to make debt service payments on the Bonds. All revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax and from any Additional Pledged Loans are transferred to the Trustee and deposited in the Revenue Fund. Moneys in the Revenue Fund are used each Bond Fund Year to pay debt service on the Bonds to the extent that moneys in the several accounts of the Debt Service Fund are insufficient and to pay debt service on the portions of the Bonds used to finance grants. At the end of each Bond Fund Year moneys in the Revenue Fund in excess of the requirements for such moneys under the Indenture are transferred to the NMFA and deposited in the Subordinate Lien PPRF Revenue Fund. These moneys are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Revenues are deposited, see "Flow of Funds" below under this caption, and Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE – Funds and Accounts." For a more complete description of the Revenue Fund, see "Flow of Funds – Revenue Fund" under this caption.

Revenues

Generally

Revenues include:

- all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs),
- all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any,
- all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, and
- all interest earned by and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund).

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Loan Agreement, provided, however, that all earnings received on the Governmental Units' Accounts will be allocated solely to the benefit of such Governmental Unit.

The Agreements and the Agreement Pledged Revenues

Generally. The Agreements consist of Loan Agreements and Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of their respective projects by the NMFA. (Under the Indenture, "Agreements" also includes Grant Agreements, however the Grant Agreements contain no repayment provisions.) Under each Loan Agreement or issue of Securities, the respective Governmental Unit pledges to the NMFA for payment of all amounts due under their respective Agreements (1) revenues of specific enterprise systems or revenues attributable to certain taxes (the "Agreement Pledged Revenues") and (2) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to pay principal of and interest on its loan promptly from its Agreement Pledged Revenues and to continue such payments until its Loan is paid in full.

Agreement Reserve Fund. Pursuant to the Indenture, an Agreement Reserve Fund has been created which will be held by the Trustee. Within such fund currently are accounts required by the NMFA in connection with certain Agreements. Amounts in a Governmental Unit's account of the Agreement Reserve Fund will be withdrawn by the Trustee and deposited into that Governmental Unit's account of the Debt Service Fund to the extent of any shortfall in payments by such Governmental Unit under its Agreement. A subaccount may also be created within a Governmental Unit's account to secure payments on that Additional Pledged Loan. Amounts in a Governmental Unit's account of the Agreement Reserve Fund will not be used to cover shortfalls in payments of other Governmental Units and will not otherwise be available to defray deficiencies in the Bond Fund. See "THE PLAN OF FINANCING – Estimated Sources and Uses of Funds" and "Flow of Funds" below under this caption.

Agreements with Governmental Units. Each Governmental Unit that has entered into a Loan Agreement or has issued Securities has pledged specific Agreement Pledged Revenues to the repayment of its Loan. See Appendix H for a list of the Governmental Units and the allocable portions of the Loans financed with the Series 2005A Bonds.

The following table lists the ten Governmental Units with Loan repayment obligations, based on scheduled payments in fiscal year 2005-06 and assuming no prepayment, expected to generate the highest percentages of estimated annual Revenues in fiscal year 2005-06.

Governmental Units With Loans Expected to Generate the Highest Percentages of Estimated Annual Pledged Revenues Based on Scheduled Fiscal Year 2005-06 Loan Payments

Borrower	FY 2005-06 Debt Service	% of Projected FY 2005-06 Pledged Revenues	Final Maturity
Albuquerque Bernalillo County Water Utility Authority	$8,302,470	12.84%	5/1/2024
City of Albuquerque[(1)]	3,779,781	5.84	5/1/2027
State Energy, Minerals and Natural Resources Department	2,236,947	3.46	7/1/2023
Gallup McKinley School District	1,464,430	2.26	8/1/2024
Valencia County	1,240,399	1.92	8/1/2019
City of Gallup	889,241	1.37	8/1/2021
Jicarilla Apache Tribe	886,907	1.37	5/1/2022
Farmington Municipal Schools	877,675	1.36	5/1/2015
Northwest Solid Waste Authority	825,252	1.28	5/1/2018
Miners' Colfax Medical Center	795,354	1.23	5/1/2017

(1) Assumes City of Albuquerque Loans are paid on June 30 of each fiscal year, rather than on the succeeding July 1, as required by the related Agreements.

Source: New Mexico Finance Authority

No Obligation of Governmental Units to Cover Shortfalls. A Governmental Unit is not required to make up any Loan Payment not paid in full by another Governmental Unit or to make up any insufficiency in the NMFA Portion of the Governmental Gross Receipts Tax.

Additional Pledged Loans

The NMFA may make loans from or purchase securities with available funds in the Public Project Revolving Fund. At its option, the NMFA may designate such loans or securities as Additional Pledged Loans (as hereinafter defined), and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds. See "Flow of Funds" below under this caption.

The Governmental Gross Receipts Tax

Generally. Pursuant to Section 7-1-6.38, NMSA 1978, the Public Project Revolving Fund administered by the NMFA is allocated 75% of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. For purposes of this Official Statement, the 75% net receipts which is allocated to the Public Project Revolving Fund is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Indenture, the NMFA Portion of the Governmental Gross Receipts Tax will be paid when received by NMFA to the Trustee and will be accounted for and maintained by the Trustee in the Revenue Fund created under the Indenture within the Public Project Revolving Fund and is available (1) to pay debt service on the Bonds to the extent Loan Payments paid by Governmental Units pursuant to the Agreements are not sufficient to pay debt service when due and (2) to pay debt service on the portions of the Bonds issued to fund Grants. See "Flow of Funds" below under this caption for additional information on the use of moneys in the Revenue Fund. Under the Indenture, payments attributable to Additional Pledged Loans, if any, will be paid by the NMFA to the Trustee prior to each Interest Payment Date. See Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" for certain information concerning the Revenue Fund and allocation of amounts therein to payment of principal of and interest on the Bonds.

Pursuant to Section 7-9-4.3, NMSA 1978, the governmental gross receipts tax is imposed on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State of New Mexico, except school districts and certain health care entities.

Governmental gross receipts are defined in Section 7-9-3.2, NMSA 1978, as all receipts of the State or any agency, institution, instrumentality or public subdivision thereof except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services, from:

- the sale of tangible personal property other than water from facilities open to the general public;
- the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public;
- refuse collection, refuse disposal or both;
- sewage services;
- the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State; and
- the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tie-down aircraft or dock boats.

The definition of governmental gross receipts includes receipts from the sale of tangible personal property handled on consignment when sold from facilities open to the general public, but excludes cash discounts taken and allowed, governmental gross receipts tax payable on transactions reportable for the period and any type of time-price differential.

The governmental gross receipts tax was enacted into law and first imposed in 1991. It is imposed at a rate of five percent on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State, except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services. In addition, the governmental gross receipts tax is not imposed on:

- receipts from transactions involving tangible personal property or services on which the gross receipts tax, compensating tax, motor vehicle excise tax, gasoline tax, special fuel tax, special fuel excise tax, oil and gas emergency school tax, resources tax, processors tax, service tax, or the excise tax imposed under Section 66-12-6.1, NMSA 1978, is imposed;
- receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision or on receipts from operation of a cable television system owned or operated by a municipality, because those receipts are subject to the regular gross receipts tax under Section 7-9-13, NMSA 1978;
- receipts from selling livestock and receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, unprocessed agricultural products, hides or pelts;
- receipts from selling tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products, services, or activities sold at, related to or occurring at a minor league baseball stadium on which a stadium surcharge is imposed pursuant to the Minor League Baseball Stadium Funding Act; or
- municipal event center receipts from the sale of tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products or services provided at municipal event centers that provide seating for a minimum of four thousand people.

Deductions from the governmental gross receipts tax include:

- certain receipts from selling tangible personal property to the United States or the State or any governmental unit or subdivision, agency, department or instrumentality of the State;

- receipts from selling tangible personal property to an Indian tribe, nation or pueblo or any governmental subdivision, agency, department or instrumentality thereof for use on Indian reservations or pueblo grants;

- certain receipts from the sale of tangible personal property to a person engaged in the business of manufacturing if the sale is made to a person who delivers a non-taxable transaction certificate to the seller;

- receipts from transactions in interstate commerce;

- receipts from selling tangible personal property, licenses or a service for resale if the sale is made to a person who delivers a nontaxable transaction certificate to the seller;

- certain receipts from selling tangible personal property to entities exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended or renumbered, if the sale is made to an organization that delivers a nontaxable transaction certificate to the seller;

- refunds and allowances made to buyers or amounts written off the books as an uncollectible debt by a person reporting governmental gross receipts tax on an accrual basis;

- certain receipts from selling prosthetic devices if the sale is made to a person who is licensed to practice medicine, osteopathic medicine, dentistry, podiatry, optometry, chiropractic or professional nursing and who delivers a nontaxable transaction certificate to the seller; and

- receipts from the sale of prescription drugs.

A new credit against the governmental gross receipts tax is provided for receipts from sales of certain services for resale when the receipts from the resale of the service are not subject to the tax, for each reporting period beginning after June 2005. Receipts from sales of services for resale when the receipts from the resale are subject to governmental gross receipts tax remain deductible, as described above.

<u>Collection and Distribution Information</u>. Governmental agencies are treated as taxpayers under the provisions of the Tax Administration Act, Section 7-1-1 *et seq.*, NMSA 1978, and are responsible for paying the governmental gross receipts tax to the New Mexico Taxation and Revenue Department in accordance with the State's Tax Administration Act. Collections are first deposited into a tax administration suspense fund for the purpose of making disbursements for refunds, among other things. On the last day of each month, the balance in the suspense fund is identified by tax source and distributed to the appropriate municipalities or state agencies, including the NMFA. Collection of governmental gross receipts tax is administered by the New Mexico Taxation and Revenue Department. Governmental gross receipts taxes are to be paid on or before the 25th day of the month following the month in which the taxable event occurs.

Presented below is information from the New Mexico Taxation and Revenue Department concerning collections of the governmental gross receipts tax for the fiscal years 1999-2000 through 2003-04. There can be no assurance that governmental gross receipts tax collections will continue to grow at historical rates or otherwise.

Governmental Gross Receipts Tax Collections
Fiscal Years 1999-2000 Through 2003-04

	Fiscal Year 1999-2000	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04
Total Net Receipts	$19,372,893	$20,994,555	$20,616,433	$22,908,393	$24,491,159
NMFA Portion of the Governmental Gross Receipts Tax	$14,529,670	$15,745,916	$15,462,325*	$17,181,295	$18,368,369

* The NMFA believes that the decrease in governmental gross receipts tax collections in fiscal year 2001-02 is attributable to operational changes at the University of New Mexico.

Presented below is information for the top nine payers of the governmental gross receipts tax for fiscal years 2001-02, 2002-03 and 2003-04. This information is not publicly available from the State and has instead been obtained from each individual entity. The NMFA does not guarantee the accuracy of such information.

Top Payers of Governmental Gross Receipts Taxes
Fiscal Years 2001-02 Through 2003-04

	Fiscal Year 2001-02		Fiscal Year 2002-03		Fiscal Year 2003-04	
Entity	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts
City of Albuquerque[(1)]	$7,349,606	33.60%	$7,615,404	33.24%	$5,517,564[(2)]	22.53%[(2)]
Albuquerque Bernalillo County Water Utility Authority[(1)]					2,655,969[(2)]	10.84[(2)]
City of Santa Fe	1,716,437	7.85%	2,020,181	8.82%	2,335,710[(2)]	9.54[(2)]
City of Las Cruces	936,567	4.28%	993,204	4.34%	1,172,463[(2)]	4.79[(2)]
University of New Mexico	1,128,122	5.16%	1,055,148	4.61%	1,111,129	4.54
City of Rio Rancho	682,333	3.12%	718,317	3.14%	816,800	3.34
City of Farmington	691,010	3.16%	742,103	3.24%	664,164	2.71
City of Roswell	534,160	2.44%	517,194	2.26%	551,411[(2)]	2.25[(2)]
County of Los Alamos	389,243	1.78%	439,554	1.92%	478,477[(2)]	1.95[(2)]
City of Gallup	334,436	1.53%	323,236	1.41%	347,556	1.41
Total	$13,761,914	62.91%	$14,424,343	62.97%	$15,645,664	63.90%

(1) Prior to December 2003, the Governmental Gross Receipts Taxes paid by the Albuquerque Bernalillo County Water Utility Authority were paid by the City of Albuquerque.
(2) Unaudited.

Sources: Listed entities.

Flow of Funds

The Indenture creates a Revenue Fund, a Bond Fund, a Debt Service Fund with separate accounts for each Governmental Unit receiving a Loan, and an Agreement Reserve Fund with a separate account, if required, for each Agreement that has a reserve requirement. The repayment obligations of those Governmental Units receiving Additional Pledged Loans who have also entered into Loan Agreements with or issued Securities purchased by the

NMFA, payable from the same revenue source, are on a parity with amounts due with respect to such Loan Agreements or Securities.

Flow of Funds Under General Indenture

All Loan Payments and other amounts paid by Governmental Units pursuant to the Loan Agreements and Securities are to be paid directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less an administrative fee of up to 0.25% retained by the NMFA) prior to each Interest Payment Date, and the Trustee is directed to deposit all such payments immediately upon receiving them, in the following accounts and in the following priority:

First: to the related Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit in that Account to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan.

Second: to the related Account, if any, in the Agreement Reserve Fund to the extent necessary to cause the balance in said Account to equal the Agreement Reserve Requirement, if any, of such Account.

On the fifth day preceding a Loan Payment Date (or, if such fifth day is not a Business Day, on the Business Day next preceding such fifth day), if the amount on deposit in any Governmental Unit's Account of the Debt Service Fund is insufficient for payments coming due under the related Loan Agreement or Securities on the next Loan Payment Date, the Trustee is directed to transfer from the related Agreement Reserve Account, if any, to that Governmental Unit's Account of the Debt Service Fund, an amount sufficient, together with amounts in such Debt Service Account, to pay the Principal Component and the Interest Component due under such Loan Agreement or Securities on such Loan Payment Date.

On each Interest Payment Date for the Bonds, the Trustee is directed to transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay the interest on the related Bonds becoming due on such Interest Payment Date and to pay the principal of each related Bond due at maturity or by prior redemption, to the extent amounts are on deposit therein for such purpose. At least once each year, and more frequently if required pursuant to the provisions of the Supplemental Indenture, the Trustee must determine the amount necessary (1) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (2) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (3) in certain cases, to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess that the Trustee does not expect to be required for such payments to the related Governmental Unit or to credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement. In certain cases, any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the related Bonds (including the 2005 Bonds) will be deposited into the Revenue Fund.

The above provisions, with respect to the flow of funds, do not apply to moneys provided pursuant to the 2000A Loan Agreement. For a description of the flow of funds with respect to the 2000A Loan Agreement, see Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – THE INDENTURE – Application of Loan Payments."

Revenue Fund

During each Bond Fund Year, all Revenues constituting receipts from the NMFA Portion of the Governmental Gross Receipts Tax and principal and interest payments from Additional Pledged Loans are required to be paid by the NMFA to the Trustee prior to each Interest Payment Date and shall be accounted for and maintained by the Trustee in the Revenue Fund. On each Interest Payment Date, the Trustee (except as otherwise provided in a Supplemental Indenture) is directed to transfer from the Revenue Fund (including any amounts in the separate account described in the next paragraph) to the Bond Fund (1) an amount equal to the principal and interest due on such Interest Payment Date on the portion of any Bonds, the proceeds of which were used to make Grants and (2) if the amounts on deposit in the Bond Fund are insufficient for payments coming due with respect to the

Bonds on such Interest Payment Date, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal and interest due on the Bonds on such Interest Payment Date.

At the conclusion of each Bond Fund Year, the Trustee is directed to retain in the Revenue Fund, in a separate account to be created therein (to the extent of amounts remaining in the Revenue Fund), the following:

- an amount equal to any deficiency in any account in the Agreement Reserve Fund;

- with respect to Agreements for which no Agreement Reserve Account was created in the Agreement Reserve Fund and a default in the payment of principal or interest under such Agreement has occurred and is continuing, an amount equal to the least of (1) 10% of the proceeds of such Agreement, (2) maximum annual debt service on such Agreement and (3) 1.25 times average annual debt service on such Agreement; and

- with respect to Bonds issued to finance Grants and for which no other debt service reserve fund has been created, an amount equal to the least of (1) five percent of the proceeds of the Bonds issued to finance such Grant, (2) one-half of maximum annual debt service on the Bonds issued to finance such Grants and (3) 0.625 times average annual debt service on the Bonds issued to finance such Grant.

Pursuant to the Indenture, the NMFA is not required to contribute any amounts to fund the retention described in the preceding paragraph other than from amounts on deposit in the Revenue Fund at the end of each Bond Fund Year, and no default under the Indenture occurs solely by reason of any insufficiency of funds remaining in the Revenue Fund to fund such retention.

After making the foregoing deposits, at the conclusion of each Bond Fund Year, and after making the payments required by the Indenture during such Bond Fund Year, the Trustee is directed to transfer the balance on deposit in the Revenue Fund to the NMFA for deposit into the Subordinate Lien Revenue Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Debt.” After the moneys have been used for the purposes specified in the Subordinated Indenture (as defined below), the NMFA may use any remaining moneys for Public Project Revolving Fund purposes; redemption of Bonds prior to maturity by depositing the same into the Bond Fund; refinancing, refunding, purchasing or advance refunding of any Bonds; or any other lawful purpose.

The balance so transferred to the Subordinate Lien Revenue Fund is no longer pledged to the payment of debt service on the Bonds.

Application of Loan Prepayments

Generally

Most Governmental Units have the option to make full or partial Prepayments of their Loans. For the purpose of matching both (1) Loan Payments and Prepayments of Loans financed with proceeds of a series of Bonds with debt service requirements for that series of Bonds, and (2) overall debt service requirements for all Outstanding Bonds with the Loan Payments on all outstanding Loans, certain series of Outstanding Bonds are subject to extraordinary mandatory redemption and the Series 2005B Bonds are subject to extraordinary optional redemption if a Governmental Unit with a Project financed with proceeds of such series of Bonds makes a Prepayment of all or part of its Loan. Certain other series (including the Public Project Revolving Fund Revenue Bonds, Series 2004B and Series 2004C) are not subject to mandatory or extraordinary optional redemption under such circumstances. Instead, the Supplemental Indentures for such series of Bonds generally require (with variations for each such series in timing and other details) the NMFA to apply all or any Prepayments, to the extent practicable, to (1) the redemption of Bonds of such series, when applicable, (2) the defeasance of Bonds of such series to their first redemption date, or (3) the origination of additional Loans. Covenants applicable to each series of the 2005 Bonds are described below.

Covenants Applicable to the Series 2005A Bonds

The NMFA covenants pursuant to the Sixty-Fifth Supplemental Indenture to take any one or more of the following actions separately or in combination, within 365 days following the receipt of a Prepayment of a Loan financed with proceeds of Series 2005A Bonds:

For Prepayments funded with proceeds of bonds or another financing transaction the interest on which is intended by the Governmental Unit to be exempt from inclusion in gross income under the Internal Revenue Code (a "Tax-Exempt Financing"), the NMFA must either (1) to the extent practicable, originate one or more new Loans in an aggregate principal amount equal to or greater than the amount of the portion of the Prepayment to be applied, and with a final maturity date and debt service requirements approximating, to the extent practicable, the final maturity date and debt service requirements for the portion of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be used to originate a new Loan or Loans), or (2) call for optional redemption Series 2005A Bonds that are subject to redemption in an aggregate principal amount equal to or greater than the amount of the Prepayment (or a pro rata portion thereof if a portion of the Prepayment is to be applied), and with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be applied). See “THE 2005 BONDS – Redemption – Optional Redemption by the NMFA.”

For Prepayments funded from sources other than a Tax-Exempt Financing, the NMFA must elect either of the options described in the previous paragraph, or must defease Series 2005A Bonds, in Authorized Denominations, to their first optional redemption date as described under the caption “THE 2005 BONDS – Redemption – Optional Redemption by the NMFA,” in an amount approximating the Prepayment received (or a pro rata portion thereof if a portion of the Prepayment is to be applied). The principal amount and maturity date of Series 2005A Bonds to be defeased must correspond to the principal amount and due date of the Principal Component of such Prepayment.

The NMFA will recalculate the respective Loan Payments due under any Loan Agreement in the case of a partial Prepayment of Loan Payments under such Loan Agreement in a manner consistent with the actions taken.

Covenants Applicable to the Series 2005B Bonds

The NMFA covenants pursuant to the Sixty-Fifth Supplemental Indenture to take any one or more of the following actions separately or in combination, following the receipt of full or partial Prepayment of a Loan reimbursed or originated with proceeds of Refunded Bonds.

For Prepayments funded with proceeds of a Tax-Exempt Financing, the NMFA must either (1) originate, to the extent practicable, one or more new Loans in an aggregate principal amount equal to or greater than the amount of the portion of the Prepayment to be applied, and with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements for the portion of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be used to originate a new Loan or Loans), or (2) call for redemption Series 2005B Bonds in an aggregate principal amount, in Authorized Denominations, corresponding to the amount of the Prepayment (or a pro rata portion thereof if a portion of the Prepayment is to be applied), and with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be applied). See “THE 2005 BONDS – Redemption – Extraordinary Optional Redemption of Series 2005B Bonds Upon Prepayment of Loans.”

For Prepayments funded from sources other than a Tax-Exempt Financing, the NMFA must elect either of the options described in the previous paragraph or must elect either of the options described in the previous paragraph, or must defease Series 2005B Bonds, in Authorized Denominations, to their first optional redemption date as described under the caption “THE 2005 BONDS – Redemption – Optional Redemption by the NMFA,” in an amount approximating the Prepayment received (or a pro rata portion thereof if a portion of the Prepayment is to be applied). The principal amount and maturity date of the Series 2005B Bonds to be defeased must correspond to the principal amount and due date of the Principal Component of such Prepayment.

The NMFA will recalculate the respective Loan Payments due under any Loan Agreement in the case of a partial Prepayment of Loan Payments under such Loan Agreement in a manner consistent with the actions taken.

Historical Prepayments

In the past five fiscal years, the NMFA received Prepayments in the numbers and aggregate principal amounts presented in the following table. Because prepayment of Loans by Governmental Units is optional for the Governmental Unit and because the Loan Payments that Governmental Units may prepay vary greatly in amount, the occurrence and aggregate principal amount of Prepayments in past fiscal years are not an indication of Prepayments to be received by the NMFA in future fiscal years.

Fiscal Year	Number of Prepayments	Aggregate Principal Amount
2000-01	1	$ 5,000
2001-02	4	4,535,000
2002-03	11	6,840,000
2003-04	16	10,303,000
2004-05	14	6,096,000

Additional Bonds

Generally

Additional Bonds or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued or incurred, only if certain requirements have been met, including the following:

- The NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are presented below under “Cash Flow Statement.”

- All payments required by the Indenture to be made into the Bond Fund must have been made in full.

- The proceeds of the Additional Bonds or other indebtedness, bonds or notes must be used (1) to refund Bonds issued under the Indenture or other obligations of the NMFA (including the funding of necessary reserves and the payment of costs of issuance) or (2) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance).

- No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds or other indebtedness, bonds or notes if (1) the issuance of such Additional Bonds or other indebtedness, bonds or notes otherwise complies with the requirements of the Indenture and (2) such Event of Default will cease to continue upon the issuance of the Additional Bonds or other indebtedness, bonds or notes and the application of the proceeds thereof.

Any of the foregoing requirements may be revised or deleted with written evidence from the Rating Agency to the effect that such revision or deletion will not result in the rating on the Outstanding Bonds being lowered.

Cash Flow Statement

Pursuant to the Indenture, “Cash Flow Statement” is a certificate of the NMFA:

- setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (1) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (2) the terms of any Loans or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Senior Trust Estate upon or in connection with the filing of such certificate, and (3) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate, the following:

- the amount of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

- the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

- the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding; and

- showing that in each such Bond Fund Year the aggregate of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds, divided by 1.35, plus the aggregate Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds, exceeds 100% of the aggregate of the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding. For purposes of the foregoing, the following assumptions apply:

  - The NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12-month period during the 24 months next preceding the delivery of the Cash Flow Statement;

  - For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above;

  - Loans and Additional Pledged Loans will be assumed to remain in their current category designations throughout the period projected in the Cash Flow Statement; and

  - the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding.

For purposes of the Indenture and the Cash Flow Statement, "Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
Category I	100%
Category II	80
Category III	50
Category IV	0

Category I Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the third highest full rating category or higher by the Rating Agency.

Category II Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

Category III Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

Category IV Loans and Additional Pledged Loans consist of all Nonperforming Loans and Additional Pledged Loans, Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been replenished in accordance with the related Agreement, and Loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

Nonperforming Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans under which there have occurred and are continuing events of default (other than a covenant default) or under which delinquencies exists in payments of principal or interest thereunder.

"Rating Agency" means Moody's Investors Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

Pursuant to the Indenture, at the time of issuance of each series of Bonds, each of the Agreements executed in connection with such issuance is required to be submitted to the Rating Agency for assignment of a designation or rating or shall be designated in Category IV by the NMFA without submission to the Rating Agency. In addition, each Additional Pledged Loan is required to be submitted to the Rating Agency for assignment of a designation or a rating or shall be designated in Category IV by NMFA without submission to the Rating Agency. At any time (including upon issuance of Additional Bonds), the category assigned to an Agreement or to Additional Pledged Loans may be revised by the Rating Agency.

Of the Agreements submitted to the Rating Agency to date, $338.60 million have been designated Category I, $143.19 million have been designated Category II and $9.79 million have been designated Category III.

The formula described in detail above can also be expressed as follows: If A equals Governmental Gross Receipts Tax, B equals Assumed Repayments of Loans and Additional Pledged Loans, and C equals Aggregate Annual Debt Service on all Bonds Outstanding, then Additional Bonds may be issued under the Indenture if:

$$(A \div 1.35) + B > C$$

No Senior Lien Obligation

No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Revenues for payment of the Bonds will be created or incurred without the prior written consent of the Owners of 100% of the Outstanding Bonds.

Outstanding Parity Bonds

The following table presents the series of Public Project Revolving Fund Revenue Bonds that are currently outstanding under the Indenture and the bonds of such series to be refunded by the Series 2005B Bonds.

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of June 1, 2005	Aggregate Principal Amount Refunded by the Series 2005B Bonds
1996 A & B	$ 21,125,000	$ 785,000	—
1997	8,585,000	5,870,000	$ 5,020,000
1999A	13,135,000	8,665,000	—
1999B	3,025,000	1,590,000	—
Taxable 1999C	2,265,000	1,160,000	—
Taxable 1999D	4,875,000	2,955,000	—
2000A	4,715,000	2,215,000	—
2000B	7,670,000	6,230,000	4,885,000
2000C	28,850,000	6,755,000	2,720,000
2002A	55,610,000	33,080,000	—
2003A	39,945,000	34,590,000	—
2003B	25,370,000	24,785,000	—
2004A-1	28,410,000	25,865,000	—
2004A-2	14,990,000	14,110,000	—
2004B-1	48,135,000	46,240,000	—
2004B-2	1,405,000	1,335,000	—
2004C	168,890,000	165,280,000	—
TOTAL	$477,000,000	$ 381,510,000	$ 12,625,000

Source: Western Financial Group, LLC

See "ANNUAL DEBT SERVICE REQUIREMENTS" for Debt Service Requirements on the outstanding Bonds and aggregate payments under Agreements relating to the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues" for a listing of the Governmental Units with Loan repayment obligations, based on scheduled payments in fiscal year 2005-06 and assuming no prepayment, expected to generate the highest percentages of estimated annual Revenues in fiscal year 2005-06.

Outstanding Subordinate Debt

The NMFA issued its Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D in the aggregate principal amount of $59,055,000 (the "2005 Subordinate Bonds"), pursuant to the Subordinated General Indenture of Trust and Pledge, as supplemented by a First Supplemental Indenture, each dated as of March 1, 2005 (as supplemented, the "Subordinated Indenture"), between the NMFA and Bank of Albuquerque, N.A., as trustee. Those Bonds financed the purchase of the Metro Court Bonds described below and are currently outstanding in the following amounts:

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of June 15, 2005*
2005C	$50,395,000	$50,395,000
Taxable 2005D	8,660,000	6,115,000
TOTAL	$59,055,000	$56,510,000

*Subordinate Bonds mature on June 15.

Source: Western Financial Group, LLC

The NMFA proposes to issue its Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E in the aggregate principal amount of $25,000,000 in the immediate future. Those Bonds will finance the purchase of the NMFA's Subordinate Lien Cigarette Tax Revenue Bonds, Series 2005.

The NMFA has issued its $50,395,000 Court Facilities Fee Refunding Revenue Bonds, Series 2005-1 and $8,660,000 Court Facilities Fee Refunding Revenue Bonds, Series 2005-2 (collectively, the "Metro Court Bonds"). The Metro Court Bonds were issued to refund the NMFA's outstanding Court Facilities Fee Revenue Bonds, Series 2002, Court Facilities Fee Revenue Bonds, Series 2001A and Taxable Court Facilities Fee Revenue Bonds, Series 2001B, and are secured by (1) a portion of certain court fees and penalty assessments distributed monthly to the NMFA, (2) certain parking fees, rents and other charges collected by the Bernalillo County Metropolitan Court from tenants and users of the Parking Facility Project after deduction of certain related costs, and (3) certain funds and accounts. Revenues are not pledged to the payment of the Metro Court Bonds. The official statement for the 2005 Subordinate Bonds described above, which includes information concerning the Metro Court Bonds, is available at the Internet site http://www.munios.com.

In connection with the issuance of bonds issued pursuant to the Subordinated Indenture (the "Subordinate Bonds"), the NMFA may enter into a loan agreement with a Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate Bonds for projects. Such loan agreements and securities are referred to herein as "Subordinate PPRF Agreements." The Subordinate Bonds are secured by (1) all revenues received or earned by the NMFA from or attributable to the Subordinate PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program); (2) public project revolving fund revenues released from the Indenture on June 1 of each year and deposited into the Subordinate Lien PPRF Revenue Fund; (3) all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Subordinated Indenture; and (4) all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Subordinated Indenture. The Metro Court Bonds are "Agreements" for purposes of the Subordinated Indenture and the revenues pledged to their payment are pledged to the payment of Subordinate Bonds.

Moneys in the Subordinate Lien PPRF Revenue Fund are available to pay on a parity basis debt service on Subordinate Bonds and on other obligations issued or incurred payable from and constituting a lien upon the Subordinate Lien PPRF Revenues (the "PPRF Secured Obligations"). The NMFA may issue additional bonds under the Subordinated Indenture.

Supplemental Indentures and Amendments to Agreements; Rating Agency Discretion

Pursuant to the Indenture, the NMFA and the Trustee may, without the consent of or notice to any of the Owners of the Bonds, enter into an indenture or indentures supplemental to the Indenture in order to make certain amendments or changes to the Indenture, including any amendment with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds, following such amendment, being lower than the rating on the Bonds immediately prior to such amendment. See Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – SUPPLEMENTAL INDENTURES."

In addition, the NMFA with the consent of the Trustee and the related Governmental Unit may, without the consent of any Owners of the Bonds, amend any Agreement including any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; or to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation ("MBIA" or, as defined elsewhere herein, the "2005 Bond Insurer") for use in this Official Statement. Such information regarding the 2005 Bond Insurer and the 2005 Bond Insurance Policy is not guaranteed as to accuracy or completeness by the NMFA or the Underwriters and is not to be construed as a representation by the NMFA or the Underwriters as to the accuracy or completeness of such information. None of the NMFA or the Underwriters have assumed responsibility to independently verify this information. No representation is made by the NMFA or the Underwriters as to the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix I for a specimen of the 2005 Bond Insurance Policy.

The MBIA Insurance Corporation Insurance Policy

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the 2005 Bond Insurance Policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representation regarding the 2005 Bonds or the advisability of investing in the 2005 Bonds.

The 2005 Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the NMFA to the Paying Agent or its successor of an amount equal to (1) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2005 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the 2005 Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (2) the reimbursement of any such payment which is subsequently recovered from any owner of the 2005 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The 2005 Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2005 Bonds. The 2005 Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (1) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (2) any payments to be made on an accelerated basis; (3) payments of the purchase price of 2005 Bonds upon tender by an owner thereof; or (4) any Preference relating to (1) through (3) above. The Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the 2005 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 2005 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2005 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2005 Bonds or presentment of such other proof of ownership of the 2005 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2005 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2005 Bonds in any legal proceeding related to payment of insured amounts on the 2005 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2005 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MIBA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The 2005 Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2005 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2005 Bonds. MBIA does not guaranty the market price of the 2005 Bonds nor does it guaranty that the ratings on the 2005 Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2005, MBIA had admitted assets of $10.6 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.6 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2005 and for the three month periods ended March 31, 2005 and March 31, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

Any documents, including any financial statement of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934 after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the 2005 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005), are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

THE PLAN OF FINANCING

Purposes of the 2005 Bonds

Proceeds from the sale of the Series 2005A Bonds will be used by the NMFA to reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of financing public projects.

Proceeds from the sale of the Series 2005B Bonds will be used to refund –

- the NMFA's Public Project Revolving Fund Bonds, Series 1997, maturing June 1, 2008 through 2017 and currently outstanding in the aggregate principal amount of $5,020,000 (the "Refunded Series 1997 Bonds"),

- the NMFA's Public Project Revolving Fund Bonds, Series 2000B, maturing June 1, 2010 through 2020 and currently outstanding in the aggregate principal amount of $4,885,000 (the "Refunded Series 2000B Bonds"), and

- the NMFA's Public Project Revolving Fund Bonds, Series 2000C, maturing June 1, 2010 through 2020 and currently outstanding in the aggregate principal amount of $2,720,000 (the "Refunded Series 2000C Bonds" and, together with the Refunded Series 1997 Bonds and the Refunded Series 2000B Bonds, the "Refunded Bonds").

See "Plan of Refunding" below. The principal amounts, maturity dates and CUSIP numbers of the Refunded Bonds are presented in Appendix H. See Appendix H for a list of the Governmental Units and the allocable portions of the Loans financed with the Series 2005A Bonds.

Proceeds of both series of the 2005 Bonds will also be used to provide funding for the payment of costs of issuance of the 2005 Bonds. See "Estimated Sources and Uses of Funds" below.

Plan of Refunding

Pursuant to an Escrow Agreement between the NMFA and Bank of Albuquerque, N.A. (the "Escrow Agent"), the NMFA will irrevocably deposit in an escrow fund (the "Escrow Fund") certain United States government obligations, which will bear interest at such rates and will be scheduled to mature at such times and in such amounts that, when paid in accordance with their terms, together with any uninvested cash held in the Escrow Fund, sufficient moneys will be available to pay when due or otherwise payable the interest on the Refunded Bonds due to and including the following respective redemption dates, and redeem on those dates all remaining Refunded Bonds of the respective series:

Refunded Bonds	Redemption Date (June 1)
Refunded Series 1997 Bonds	2007
Refunded Series 2000B Bonds	2009
Refunded Series 2000C Bonds	2009

Upon such deposits and investment and compliance with certain notice requirements of the Indenture, the Refunded Bonds will no longer be deemed to be outstanding under and entitled to the benefit of the pledge and lien established by the Indenture.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with each series of 2005 Bonds are presented in the following table.

Estimated Sources and Uses of Funds

	Series 2005A	Series 2005B
SOURCES:		
Par Amount	$19,015,000.00	$13,500,000.00
Net Premium (Discount)	550,657.35	(8,940.40)
Agreement Reserve Accounts[1]	1,766,473.66	--
TOTAL SOURCES:	$21,332,131.01	$13,491,059.60
USES:		
Reimbursement of Public Project Revolving Fund[2]	$19,233,931.29	$ --
Agreement Reserve Accounts[1]	1,766,473.66	--
Deposit to Escrow Fund	--	13,244,935.77
Costs of Issuance[3]	331,726.06	235,076.35
TOTAL USES:	$21,332,131.01	$13,491,059.60

(1) Represents the aggregate amount on deposit in Agreement Reserve Accounts related to certain Loans financed or refinanced with the respective Series.
(2) Reimbursement of amounts used to make Loans.
(3) Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, trustee fees, escrow agency fees and escrow verification costs for the Series 2005B Bonds, underwriter's discount, bond insurance premiums, and other miscellaneous costs. See "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for each series of 2005 Bonds and for all other Bonds, for each fiscal year through their final maturity dates.

Debt Service Requirements for the Bonds

	Series 2005A			Series 2005B			
Fiscal Year	Principal[1]	Interest[2][3]	Total[3]	Principal[1]	Interest[2][3]	Total[3]	All Other Bonds[3][4]
2006	$ 920,000	$633,578	$1,553,578	$ 180,000	$ 425,288	$ 605,288	$ 40,431,206
2007	1,500,000	732,694	2,232,694	95,000	504,945	599,945	38,883,956
2008	1,450,000	687,694	2,137,694	560,000	502,095	1,062,095	36,986,451
2009	1,640,000	644,194	2,284,194	520,000	485,295	1,005,295	37,456,580
2010	1,460,000	578,594	2,038,594	1,770,000	469,175	2,239,175	36,505,863
2011	1,230,000	520,194	1,750,194	1,000,000	411,650	1,411,650	37,764,743
2012	1,305,000	470,994	1,775,994	1,425,000	366,650	1,791,650	36,941,359
2013	1,345,000	418,794	1,763,794	1,100,000	306,775	1,406,775	36,065,769
2014	1,185,000	364,994	1,549,994	1,150,000	267,175	1,417,175	33,714,722
2015	1,185,000	305,744	1,490,744	1,190,000	224,050	1,414,050	32,679,632
2016	1,185,000	246,494	1,431,494	1,235,000	179,425	1,414,425	29,690,982
2017	540,000	187,244	727,244	1,280,000	133,113	1,413,113	19,886,132
2018	440,000	166,994	606,994	715,000	81,913	796,913	18,946,486
2019	455,000	149,394	604,394	870,000	53,313	923,313	16,712,467
2020	475,000	131,194	606,194	410,000[5]	17,425	427,425	15,447,417
2021	495,000	112,194	607,194	—	—	—	14,741,506
2022	520,000	92,394	612,394	—	—	—	13,928,349
2023	535,000	70,944	605,944	—	—	—	9,979,739
2024	565,000	48,875	613,875	—	—	—	8,039,690
2025	585,000[5]	24,862	609,862	—	—	—	2,393,460
2026	—	—	—	—	—	—	2,380,244
2027	—	—	—	—	—	—	1,994,093
2028	—	—	—	—	—	—	791,068
2029	—	—	—	—	—	—	795,513
2030	—	—	—	—	—	—	594,216
2031	—	—	—	—	—	—	596,613
2032	—	—	—	—	—	—	564,708
2033	—	—	—	—	—	—	42,050
	$19,015,000	$6,588,060	$25,603,060	$13,500,000	$4,428,285	$17,928,285	$524,935,014

(1) Payable on June 1 of each year.
(2) Payable on June 1 and December 1 of each year, commencing December 1, 2005.
(3) Figures are rounded to nearest whole dollar and may not add due to rounding.
(4) Includes debt service requirements for all outstanding Bonds, other than the Refunded Bonds. Does not include debt service requirements for the 2005 Bonds. Figures for total aggregate debt service requirements for all Bonds, following the issuance of the 2005 Bonds, are presented in the table captioned "Estimated Revenues, Annual Debt Service Requirements and Projected Coverage Ratios" on the following page.
(5) Final maturity.

Source: Western Financial Group, LLC.

The following table shows estimated available Revenues pledged to the payment of the Bonds, total debt service requirements for the 2005 Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on unaudited fiscal year 2004-05 collections of the NMFA Portion of the Governmental Gross Receipts Tax and scheduled payments under the Agreements and Additional Pledged Loans, and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues – The Governmental Gross Receipts Tax," "– The Agreements and the Agreement Pledged Revenues" and "–Additional Pledged Loans" for descriptions of the Revenues presented in the table under the headings "Governmental Gross Receipts Tax" and "Aggregate Pledged Borrower Payments."

Estimated Revenues, Annual Debt Service Requirements and Projected Coverage Ratios

Fiscal Year	Governmental Gross Receipts Tax(1)	Aggregate Pledged Borrower Payments(2)(3)	Estimated Total Revenues(3)	Total Debt Service Requirements(3)	Estimated Annual Coverage Ratios(4)
2006	$18,785,160	$ 45,977,646	$ 64,762,806	$ 42,590,072	1.52x
2007	18,785,160	41,611,942	60,397,102	41,716,595	1.45
2008	18,785,160	40,321,373	59,106,533	40,186,239	1.47
2009	18,785,160	40,661,924	59,447,084	40,746,069	1.46
2010	18,785,160	42,024,439	60,809,599	40,783,632	1.49
2011	18,785,160	42,166,693	60,951,853	40,926,587	1.49
2012	18,785,160	41,405,975	60,191,135	40,509,003	1.49
2013	18,785,160	39,988,862	58,774,022	39,236,338	1.50
2014	18,785,160	36,746,809	55,531,969	36,681,891	1.51
2015	18,785,160	36,420,487	55,205,647	35,584,426	1.55
2016	18,785,160	32,258,616	51,043,776	32,536,901	1.57
2017	18,785,160	23,412,555	42,197,715	22,006,489	1.92
2018	18,785,160	21,398,746	40,183,906	20,350,393	1.97
2019	18,785,160	18,971,520	37,756,680	18,240,174	2.07
2020	18,785,160	17,706,560	36,491,720	16,481,036	2.21
2021	18,785,160	16,022,185	34,807,345	15,348,700	2.27
2022	18,785,160	15,573,848	34,359,008	14,540,743	2.36
2023	18,785,160	10,555,406	29,340,566	10,585,683	2.77
2024	18,785,160	8,566,205	27,351,365	8,653,565	3.16
2025	18,785,160	2,613,780	21,398,940	3,003,322	7.13
2026	18,785,160	2,340,739	21,125,899	2,380,244	8.88
2027	18,785,160	2,032,912	20,818,072	1,994,093	10.44
2028	18,785,160	827,044	19,612,204	791,068	24.79
2029	18,785,160	828,819	19,613,979	795,513	24.66
2030	18,785,160	619,260	19,404,420	594,216	32.66
2031	18,785,160	620,665	19,405,825	596,613	32.53
2032	18,785,160	578,905	19,364,065	564,708	34.29
2033	18,785,160	46,384	18,831,544	42,050	447.84
		$ 582,300,297	$1,108,284,777	$ 568,466,364	

(1) Future collections of the NMFA Portion of the Governmental Gross Receipts Tax are based on unaudited fiscal year 2004-05 collections provided by the NMFA and are subject to change.
(2) Includes scheduled payments under Agreements and outstanding Additional Pledged Loans.
(3) Amounts are rounded to the nearest dollar and may not add due to rounding.
(4) Calculated using the unaudited fiscal year 2004-05 NMFA Portion of the Governmental Gross Receipts Tax provided by the NMFA, assuming that no Additional Bonds will be issued under the Indenture, and are subject to change.

Sources: NMFA and Western Financial Group LLC.

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the Authority's board of directors and currently employs 26 persons, including an Executive Director. The Executive Director directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- to sue or be sued;
- to adopt and alter an official seal;
- to make and alter bylaws for its organization and internal management and to adopt, subject to the review and approval of the NMFA oversight committee, such rules as are necessary and appropriate to implement the provisions of the Act;
- to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the Act;
- to acquire, construct, hold, improve, grant or accept mortgages of, sell, lease, convey or dispose of real and personal property for its public purposes;
- to acquire, construct or improve real property, buildings and facilities for lease and to pledge rentals and other income received from such leases to the payment of bonds;
- to make loans and leases and to purchase securities and to contract to make loans and leases and to purchase securities;
- to make grants from the Water and Wastewater Project Grant Fund and Local Government Planning Fund to qualified entities to finance public projects;
- to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;
- to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA;
- to accept, administer, hold and use all funds made available to the NMFA from any sources;
- to borrow money and to issue bonds and provide for the rights of holders of the bonds;

- to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;

- to invest and reinvest its funds and to take and hold property as security for the investment of such funds;

- to employ attorneys, accountants, underwriters, financial advisers, trustees, paying agents, architects, engineers, contractors and such other advisers, consultants and agents as may be necessary and to fix and pay their compensation;

- to apply for and accept gifts or grants of property, funds, services or aid in any form from the United States, any unit of government or any person and to comply, subject to the provisions of the Act, with the terms and conditions of the gifts or grants;

- to maintain an office at any place in the state it may determine;

- subject to any agreement with bondholders to: (1) renegotiate any loan, lease or agreement; (2) consent to any modification of the terms of any loan, lease or agreement; and, (3) purchase bonds, which may upon purchase be canceled; and

- to do any and all things necessary or convenient to carry out its purposes and exercise the powers given and granted in the Act.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members, seven of whom are *ex officio* members designated in the Act and five of whom are appointed by the Governor with the advice and consent of the State senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the state. The seven *ex officio* members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the governor and the appointed members serve four-year terms. Vacancies are filled by appointment for the remainder of any unexpired term. Any member is eligible for reappointment.

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it:

- meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the Act and to review and approve regulations proposed for adoption;

- monitors and provides assistance and advice on the public project financing program of the NMFA;

- oversees and monitors State and local government capital planning and financing and takes testimony from State and local officials on State and local capital needs;

- provides advice and assistance to the NMFA and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects;

- undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and

- reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the "Legislature"), and makes available the report and proposed legislation on or before December 15 each year.

The Governor's Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003, to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. The Executive Order designates the Executive Director and Chairman of the NMFA as members of the Governor's Finance Council. The NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor's Finance Council.

Governing Body and Staff Members

Current members of the NMFA, and their respective occupations and term expiration dates, are presented below:

Name	Occupation	Term Expires
Gary Bland[(1)]	State Investment Officer, State Investment Council	not applicable
John Carey[(2)]	President and CEO, Association of Commerce and Industry	01/01/08
Gustavo Cordova[(1)]	Executive Director, New Mexico Association of Counties	not applicable
Ron Curry[(1)]	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance[(2)] (Chairman)	Owner/CEO, The Flance Company	12/31/05
William Fulginiti[(1)] (Vice Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia[(2)]	President, Garcia Honda	01/01/09
Rick Homans[(1)]	Secretary, Economic Development Department, State of New Mexico	not applicable
James Jimenez[(1)]	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
James L. McDonough[(2)]	Vice President for Business and Finance, New Mexico State University	12/31/07
Joanna Prukop[(1)] (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves[(2)] (Treasurer)	President, First National Bank of New Mexico	01/01/08

(1) *Ex officio* member.
(2) Appointed by the Governor of the State.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the 2005 Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Executive Director. Mr. Sisneros serves as the Executive Director of the NMFA, having been appointed to the position in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development consulting, and land development process consulting. He graduated from the University of Colorado at Boulder with a Master's Degree in Public Administration. In addition, Mr. Sisneros served as City Manager of Santa Fe, New Mexico; Town Manager of Taos, New Mexico; Assistant City Manager of Boulder, Colorado; and Administrative Assistant in Englewood, Colorado. In Santa Fe, Mr. Sisneros served on the Executive Board of St. Vincent Hospital, as President of the Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., and on the Boards of Directors of Open Hands, New Mexico CARES and New Mexico First, New Mexico nonprofit corporations.

Jerome L. Trojan, Chief Operating Officer. Mr. Trojan joined the NMFA in January 2005. He has extensive experience in local government, having served as Assistant City Manager for the Cities of Las Cruces, New Mexico and Mountlake Terrace, Washington, Administrative Services Director for Santa Fe, New Mexico, Finance Director for Las Cruces, New Mexico, and Finance Director for Bay City, Michigan. In addition, Mr. Trojan has experience in higher education, having held the position of the Vice Chancellor of Administration at the University of Alaska-Fairbanks and served as an Accountant at Delta Community College in Bay City, Michigan. A Certified Public Accountant, he graduated from Central Michigan University with a Master's in Business Administration with a concentration in Finance and from Western Michigan University with a Bachelor's in Business Administration, with a major in Accounting and a minor in Economics. Mr. Trojan has taken the required courses for a Doctorate in International Management from Nova Southeastern University. While at the City of Las Cruces, Mr. Trojan led the City's effort to reduce electric utility costs to the community. He is active in the International City Managers Association and was instrumental in the establishment of the New Mexico Finance Officers Association.

Keith H. Mellor, Chief Financial Officer. Mr. Mellor joined the NMFA in November 1995. Before coming to the NMFA, Mr. Mellor was controller for the Los Alamos Credit Union. He brings with him an extensive background in controllership, investment portfolio management, governmental auditing and accounting. His responsibilities include design, implementation, and maintenance of financial controls, reporting systems and investment strategies. Prior to serving at the Los Alamos Credit Union, Mr. Mellor was CFO/Controller for CNS, Inc., a systems engineering and integration firm. Mr. Mellor holds a B.S. in accounting from Metro State College, Denver, Colorado. He holds a Certified Public Accountant's license in the State of Colorado.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 15 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax-exempt hospital bonds. Ms. Russel earned her bachelor's degree from Marquette University, Milwaukee, Wisconsin.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

The Public Project Revolving Fund Program

General

The Act created the Public Project Revolving Fund (PPRF) Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment, all as authorized by law As of May 31, 2005, the NMFA had made 452 PPRF loans totaling $626,547,579. To implement the PPRF Program, the NMFA has been granted the following specific powers:

- to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;

- to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (1) a loan to a qualified entity, (2) a purchase or sale of securities individually or on a pooled basis, or (3) the performance of its duties and execution of any of its powers under the Act;

- to purchase, hold or sell securities at prices and in a manner the NMFA considers advisable, giving due consideration to the financial capability of the qualified entity, and sell securities acquired or held by it at prices without relation to cost and in a manner the NMFA considers advisable;

- to prescribe the form of application or procedure required of a qualified entity for a loan or purchase of its securities, fix the terms and conditions of the loan or purchase and enter into agreements with qualified entities with respect to loans or purchases;

- to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities, whether or not the loan is made or the securities purchased;

- to fix and establish terms and provisions with respect to: (1) a purchase of securities by the NMFA, including date and maturities of the securities; (2) redemption or payment before maturity; and (3) any other matters that in connection with the purchase are necessary, desirable or advisable in the judgment of the NMFA;

- to the extent permitted under its contracts with the holders of bonds of the NMFA, consent to modification of the rate of interest, time and payment of installment of principal or interest, security or any other term of a bond, contract or agreement of any kind to which the NMFA is a party;

- in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA;

- to acquire fee simple, leasehold, mortgagor's or mortgagee's interests in real and personal property and to sell, mortgage, convey or lease that property for NMFA purposes; and

- in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

The Senior Lien Program

The NMFA is authorized to issue bonds pursuant to the Indenture to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. In connection with the issuance of Bonds, the NMFA may enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Bonds for projects. The NMFA has issued several series of Bonds since July 1995. The proceeds of such Bonds were used to make loans and grants (or to reimburse the NMFA for making loans and grants) to numerous local governmental entities of the State, as well as two departments of State government, for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds" for a list of series of outstanding Bonds and a description of the revenues securing them.

The Subordinate Lien Program

The NMFA also is authorized to issue bonds pursuant to the Subordinated Indenture to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. As in the senior lien program, the NMFA may, in connection with the issuance of Subordinate Bonds, enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate Bonds for projects. The NMFA has issued two previous series of Subordinate Bonds. The proceeds of such bonds were used to make loans for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Debt" for a description of series of outstanding Subordinate Bonds and the revenues securing them.

Equipment Program Loans

The NMFA is authorized to use money on deposit in the Public Project Revolving Fund to make loans to qualified entities (either directly or by means of the purchase of the entity's securities) for the financing of equipment for fire protection, law enforcement and protection, computer and data processing, street and road construction and maintenance, emergency medical services, solid waste collection, transfer and disposal, radio and telecommunications, and utility system purposes; and the acquisition, construction and improvement of fire stations.

Equipment program loans may not exceed $750,000 to a qualified entity at any one time. Within two years after making a loan, the NMFA must obtain specific authorization from the Legislature for a project funded through the equipment program. If the Legislature authorizes the project within two years, the NMFA sets a final interest rate and terms for the loan and issues bonds under either the Indenture or the Senior Indenture to provide for the reimbursement of the Public Project Revolving Fund for the amount of the loan. If the Legislature does not authorize a project within two years, the entity must repay the loan. Temporary loans made under the equipment program are not required to be specifically authorized by law.

Other Programs and Projects

The NMFA participates in or administers several other programs designed to provide financing to local governmental entities and state agencies for public projects. These programs and projects are described in Appendix F.

LITIGATION

To the knowledge of the NMFA, there is no controversy or litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2005 Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Revenues for the payment of the debt service on the 2005 Bonds or in any way contesting or affecting the validity or enforceability of the 2005 Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA and the office of the New Mexico Attorney General will deliver no-litigation certificates as to the foregoing prior to the issuance of the 2005 Bonds.

UNDERWRITING

RBC Dain Rauscher Inc. and Cabrera Capital Markets, Inc. (the "Underwriters") have agreed to purchase the 2005 Bonds from the NMFA pursuant to a Bond Purchase Agreement dated June 30, 2005 (the "Bond Purchase Agreement"), at an aggregate price of $32,866,010.28 (being the aggregate principal amount plus a net original issue premium of $541,716.95 and less underwriter's discount of $190,706.67). The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2005 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the 2005 Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

TAX MATTERS

Federal Income Tax

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the 2005 Bonds. The NMFA and the Governmental Units whose loans are being financed or refinanced by the issuance of the 2005 Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the 2005 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and such Governmental Units with such requirements and restrictions in rendering its opinion regarding the tax exempt status of interest on the 2005 Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the 2005 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the 2005 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds may otherwise affect a Bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and the Bondholder's other items of income or deduction. Said Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds.

Original Issue Premium. Certain of the 2005 Bonds were offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a 2005 Bond through reductions in the holder's tax basis for the 2005 Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the 2005 Bond rather than creating a deductible expense or loss. 2005 Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the 2005 Bonds were offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. Original issue discount on a 2005 Bond accrues as tax-exempt interest periodically over the term of the 2005 Bond. The accrual of original issue discount increases the holder's tax basis in the 2005 Bond for determining taxable gain or loss from sale or from redemption prior to maturity. 2005 Bondholders should consult their tax advisors for an explanation of the accrual rules.

State of New Mexico Income Tax

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, under laws of the State of New Mexico as currently enacted and construed, interest on the 2005 Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the 2005 Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt

Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions in the forms included in Appendix D. Certain legal matters will be certified for the NMFA by the Office of the Attorney General for the State of New Mexico or passed on for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Sutin, Thayer & Browne A Professional Corporation, Disclosure Counsel to the NMFA, and for the Underwriters by Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA contained in this Official Statement.

FINANCIAL ADVISOR

The NMFA has retained Western Financial Group, LLC, as financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the 2005 Bonds. Western Financial Group, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

VERIFICATION OF FINANCIAL CALCULATIONS

Prior to the delivery of the Series 2005B Bonds, Causey, Demgen & Moore, Inc., certified public accountants, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them by the RBC Dain Rauscher Inc., as Representative, relating to the adequacy of the maturing principal amounts of the United States governmental obligations held by the Escrow Agent, and interest to be earned thereon to pay all of the principal of and premium, if any, and interest on the Refunded Bonds, when due.

Based on the mathematical computations of the accountants, the Escrow Fund will be funded in an amount sufficient such that the Refunded Bonds will be deemed to have been paid and will no longer be outstanding as of the date of the establishment of the Escrow Fund.

FINANCIAL STATEMENTS

The combined financial statements of the NMFA for the year ended June 30, 2004, included as Appendix A of this Official Statement have been audited by Neff + Ricci, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated December 3, 2004. Such financial statements represent the most current audited financial information available for the NMFA. Neff + Ricci, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement.

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the NMFA's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the NMFA will execute and deliver a Continuing Disclosure Undertaking in connection with the issuance of the 2005 Bonds, pursuant to which it will agree to provide the following information:

- to each nationally recognized municipal securities information repository ("NRMSIR") by no later than March 31 of each fiscal year, or the next succeeding business day if March 31 is not a business day (and to the Trustee and to each holder of the 2005 Bonds who requests such information):

- annual financial information and operating data concerning the NMFA Portion of the Governmental Gross Receipts Tax Revenues, such information to be of the type presented in the table captioned "Governmental Gross Receipts Tax Collections – Fiscal Years 1999-2000 Through 2003-04," under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues – The Governmental Gross Receipts Tax" in the Official Statement;

- with respect to any Governmental Unit expected by the NMFA, on the last business day that is at least 45 days prior to the date specified for providing such information to each NRMSIR, to have Loan repayment obligations in the then-current fiscal year constituting more than 20% of the estimated Revenues for the then-current fiscal year (the "20% Test"), and each additional Governmental Unit designated by the NMFA by such day, information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement Pledged Revenues, or such shorter period for which such information is available; and

- audited financial statements for the NMFA, any Governmental Unit meeting the 20% Test and each additional Governmental Unit designated by the NMFA (or, if audited financial statements are not available by March 31 of each fiscal year, or the next succeeding business day if March 31 is not a business day, unaudited financial statements);

- in a timely manner to the Municipal Securities Rulemaking Board ("MSRB") and to each State information depository, if any, notice of a failure to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking; and

- in a timely manner to the MSRB and to a State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the 2005 Bonds, if material:

    - principal and interest payment delinquencies;
    - non-payment related defaults;
    - unscheduled draws on debt service reserves reflecting financial difficulties;
    - unscheduled draws on credit enhancements reflecting financial difficulties;
    - substitution of credit or liquidity providers, or their failure to perform;
    - adverse tax opinions or events affecting the tax-exempt status of the 2005 Bonds;
    - modification of rights of security holders;
    - bond calls;
    - defeasances;
    - release, substitution, or sale of property securing repayment of the 2005 Bonds; and
    - rating changes.

The NMFA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA, such other event is material with respect to the 2005 Bonds. However, the NMFA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The NMFA will provide its annual report to Digital Assurance Certification, L.L.C. ("DAC"), as dissemination agent, to file with each NRMSIR and with the State information depository, if any. The NMFA will provide the notices of material events to DAC to file with each NRMSIR or the MSRB, and with the State information repository, if any.

The NMFA reserves the right to modify from time to time the Continuing Disclosure Undertaking, including the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA; provided that, the NMFA has agreed that any such modification will be done in a manner consistent with the Rule. The NMFA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the 2005 Bonds and will be enforceable by the Owners; provided that the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA's obligations, and any failure by the NMFA to comply with the provisions of the undertaking will not be an event of default with respect to the 2005 Bonds.

Continuing disclosure undertaking previously entered into by the NMFA called for it to file certain annual financial information and operating data and audited financial statements for the NMFA and any Governmental Unit meeting the objective criteria described in those undertakings with each NRMSIR no later than 270 days after the end of each fiscal year. In September 2004, the NMFA discovered that for fiscal years 2000-01 and 2001-02 only the audited financial statements of the NMFA were filed with the NRMSIRs. For fiscal year 2002-03 annual financial information and operating data and audited financial statements for the NMFA were filed with each NRMSIR, but the audited financial statements for the Governmental Units meeting the objective criteria were not filed. On October 1, 2004, NMFA notified the MSRB of its failure to file the annual financial information and operating data and the audited financial statements for the Governmental Units meeting the objective criteria. The NMFA filed annual financial information and operating data and the audited financial statements for the City of Albuquerque, New Mexico and the Energy, Minerals and Natural Resources Department of the State of New Mexico on October 4, 2004. NMFA believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings.

No Governmental Unit currently is expected to have annual Loan repayment obligations exceeding 20% of estimated annual Revenues in the first full year following issuance of the 2005 Bonds.

RATINGS

Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa," "AAA" and "AAA," respectively, to the 2005 Bonds, based on the understanding that upon the delivery of the 2005 Bonds, the 2005 Bond Insurance Policy will be issued by MBIA. In addition, Moody's, S&P and Fitch have assigned underlying (*i.e.*, without regard to the 2005 Bond Insurance Policy) long-term ratings of "A1," "A" and "AA," respectively, to the 2005 Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, S&P at 55 Water Street, New York, New York 10041, and Fitch at One State Street Plaza, New York, New York 10004.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the 2005 Bonds and there is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings given to the 2005 Bonds may have an adverse effect on the market price of the 2005 Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the 2005 Bonds any proposed revision or withdrawal of the ratings on the 2005 Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information in it is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents in this Official Statement do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchaser or holder of any of the 2005 Bonds.

APPROVAL BY THE NMFA

The distribution and use of this Official Statements by the Underwriters have been duly authorized and approved by the NMFA, and this Official Statement has been executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Executive Director.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance,
Chairman of the Board of Directors

By /s/ William C. Sisneros
William C. Sisneros,
Executive Director

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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NEFF + RICCI LLP

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CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

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Official Roster

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Samuel O. Montoya, Secretary
Ron Curry
James Jimenez
Rick Homans
Joanna Prukop
Gary Bland
James L. McDonough
Craig Reeves
Randy Harris
John A. Carey

Executive Director

William C. Sisneros

Chief Financial Officer

Keith H. Mellor

Controller

Joe Gosline

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Independent Auditors' Report

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor fund of the Authority, as of June 30, 2004, and the respective changes in the financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board of Directors
New Mexico Finance Authority
And
Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4-14 is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of pledged collateral is presented for purposes of additional analysis and are not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to each of the respective individual funds taken as a whole.

Neff + Ricci LLP

Albuquerque, New Mexico
December 3, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The New Mexico Finance Authority (the Authority) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (ability to address future year challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

HIGHLIGHTS

Financial Highlights

Statement of Net Assets (see table 1)
The Authority's total net assets at FY 2004 year end were $118,103,992 compared to $149,344,036 in FY 2003 a net decrease of $31,240,044 due to the following factors: The governmental net assets for FY 2004 were ($21,388,860) compared to $29,053,630 in FY 2003 a decrease of $50,442,490. This was primarily due to the defeasing of two highway bond issues and the subsequent liquidation of the funds; and the accelerated redemption of a state automation bond issue. Business-type FY 2004 net assets were $139,492,852 compared to $120,290,406 in FY 2003 an increase of $19,202,446. This was due primarily to increases in PPRF loan production. Generally, the other Business-type funds experienced growth.

Statement of Activities (see table 2)
The Governmental and Business-type activities FY 2004 Program revenue was $20,732,745 down from $27,195,280 in FY 2003, a decrease of $6,462,535. This was primarily due to a decrease in pledged tax revenue FY 2004 related to accelerated bond redemptions and defeasing. The Governmental and Business-type activities FY 2004 General Revenue and Transfers were $39,081,849 down from $49,325,234 in FY 2003, a decrease of $10,243,385 due to the reason stated above.

The change in net assets was a decrease of $29,183,116 in fiscal year 2004, due to the reasons explained above. The total FY 2004 cost of all NMFA programs was $88,997,710 compared to $79,771,251 in FY 2003, a net increase of $9,226,459 due to an increase of $17,773,084 in governmental funds and a $8,546,625 decrease in Business-type funds. The $17,773,084 increase of Governmental Type expenses was due entirely to debt service expenditures related to the defeasing of the Highway bonds. The $8,546,625 decrease of Business-type expenses was due mainly to reduced operating expenses of the PPRF loan program; and reduced transfers to other state agencies.

The Authority's gross assets decreased from $622,798,012 in FY 2003 to $609,471,888 in FY 2004; a decrease of $13,326,124.

NMFA Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the NMFA and the NMFA provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY 2004, the PPRF program made approximately ninety loans totaling approximately $115.2 million compared to seventy loans totaling $70.7 million in FY 2003.

In cooperation with the New Mexico Environment Department (NMED), the NMFA administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY 2004, the DWRLF made one loan totaling $1.8 million compared to three loans totaling $5.9 million in FY 2003. The FY 2004 binding commitments numbered seven, approximating $31.5 million compared to four totaling approximately $16.5 million in FY 2003.

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2004, the NMFA Board has approved fourteen loans totaling $7.75 million.

During FY 2004, the NMFA issued $1.17 billion in bonds to provide all or part of the financing for several state projects, including the additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center located at the University of New Mexico Health Sciences Center in Albuquerque as well as certain transportation projects authorized by the New Mexico Department of Transportation.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY 2004, 40 grants closed for a total of $10,730,017, compared to 40 grants totaling $20,452,613 in FY 2003.

The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework and created a fifteen-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the NMFA, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The NMFA is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects as well as an appropriation for future use to the Water Project Fund in FY 2004. In FY 2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY 2005, funding will come from severance tax.

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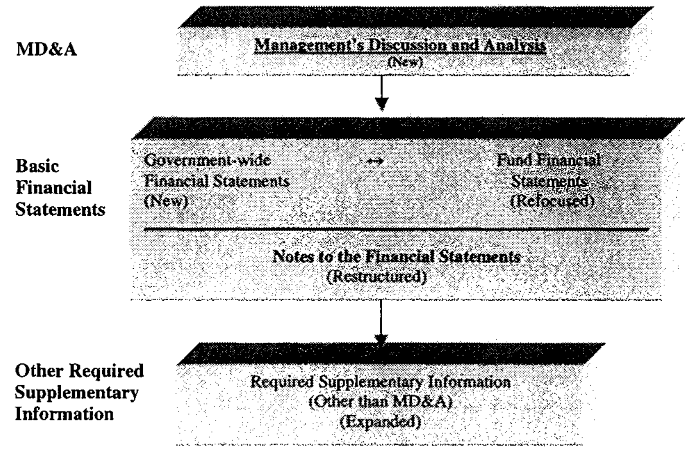
USING THIS ANNUAL REPORT

The focus is on both the NMFA (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the NMFA is an instrumentality of the State of New Mexico Government, the primary government focus in this financial report is the NMFA and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:

NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions, or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the NMFA. Both statements distinguish between the governmental and business-type activities of the NMFA. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The government-wide financials statements of the NMFA are divided into two categories:

- Governmental Activities – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the NMFA are the, Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Behavioral Health Clinic Financing, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capitol Improvement Financing, and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities – The Authority's revolving fund programs and operating fund are included in the Business-type activities. The funds included in the Business-type activities for the NMFA are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the GRIP Administrative Fund, and the General Operating Fund.

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Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Governmental Fund Types:

- Special Revenue funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authorities funds classified as Special Revenue Funds are the UNM Cancer Center Bond Fund, the Water Waste/water Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service funds – The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs. The funds classified as debt service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund, and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

- Enterprise funds – Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the costs of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The funds classified as proprietary funds are, the General Operating fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund, and the Behavioral Health Clinic Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Infrastructure Assets

Infrastructure assets (roads, bridges, traffic signals, etc.) are to be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The NMFA does not own a material interest in any infrastructure assets.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and therefore does not present any budgetary statements.

FINANCIAL ANALYSIS OF THE NMFA AS A WHOLE

Net Assets: Table 1 summarizes the Authority's net assets for the fiscal years ending June 30, 2004 and 2003 on a comparative basis. FY 2004 net assets for Governmental Activities and Business-type Activities were ($21,388,860) and $139,492,852 respectively. Total NMFA net assets for fiscal year 2004 are $118,103,992. However, most of those net assets are restricted as to the purposes for which they can be used.

Table 1
The NMFA Statement of Net Assets

	Governmental Activities FY 2003	Governmental Activities FY 2004	Business-type Activities FY 2003	Business-type Activities FY 2004	**Total FY 2003**	**Total FY 2004**
ASSETS AND OTHER DEBITS						
Current and Other Assets	$ 122,223,030	122,103,991	172,454,211	165,606,355	294,677,241	287,710,346
Capital and Non-Current Assets	111,867,524	5,465,722	216,253,247	316,295,820	328,120,771	321,761,542
Total Assets	$234,090,554	$127,569,713	$388,707,458	$481,902,175	$622,798,012	$609,471,888
LIABILITIES						
Current Liabilities	$ 31,094,603	12,212,900	68,511,006	105,575,960	99,605,609	117,788,860
Long-Term Liabilities	173,942,321	136,745,673	199,906,046	236,833,363	373,848,367	373,579,036
Total Liabilities	205,036,924	148,958,573	268,417,052	342,409,323	473,453,976	491,367,896
NET ASSETS						
Invested in capital assets	-	23,010	30,056	46,023	30,056	69,033
Restricted	29,053,630	(21,411,870)	120,242,644	138,667,438	149,296,274	117,255,568
Unrestricted	-	-	17,706	779,391	17,706	779,391
Total net assets	29,053,630	(21,388,860)	120,290,406	139,492,852	149,344,036	118,103,992
Total liabilities and net assets	$ 234,090,554	$127,569,713	$388,707,458	$481,902,175	$622,798,012	$609,471,888

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Statement of Activities: (Table 2).

Revenue

Total revenue for The NMFA as a whole in FY 2004 was $59,814,594. The Authority's revenue was generated from a number of sources.

For governmental-type activities total revenue was $23,093,430 of which tax revenues comprised 71%, operating grants and contributions comprised 5%, interest and investment income comprised 9%, charges for services and transfers comprised 10% and other revenue comprised 4%.

For business-type activities total revenue was $36,721,164 of which tax revenues comprised 50%, operating grants and contributions 12%, interest and investment income 3%, and charges for services and transfers 35%.

Table 2
NMFA Statement of Activities

	Governmental - type Activities (Infrastructure financing) FY 2003	**Governmental - type Activities (Infrastructure financing) FY 2004**	**Business-type Activities (Infrastructure financing) FY 2003**	**Business-type Activities (Infrastructure financing) FY 2004**	**Total FY 2003**	**Total FY 2004**
Expenses	$53,208,538	$71,484,073	$26,562,713	$17,513,637	$79,771,251	$88,997,710
Total program revenues	7,330,051	3,561,199	19,865,229	17,171,546	27,195,280	20,732,745
Changes in net assets:						
Net (expense) revenue	(45,878,487)	(67,922,874)	(6,697,484)	(342,091)	(52,575,971)	(68,264,965)
Total general revenues and transfers	32,326,639	10,532,410	16,998,595	20,549,439	49,325,234	39,081,849
Change in net assets	(13,551,848)	(49,390,464)	10,301,111	20,207,348	(3,250,737)	(29,183,116)
Net assets - beginning, as adjusted	42,605,478	28,001,604	109,989,294	119,285,504	152,594,772	147,287,108
Net assets – ending	$29,053,630	($21,388,860)	$120,290,405	$139,492,852	$149,344,035	$118,103,992

Expenditures

Total expenditures for The NMFA as a whole in FY 2004 were $88,997,710.

The Authority's total expenditures for government-type activities during the fiscal year were $70,981,622. Approximately 1% of the expenditures are in the area of operating costs which include salaries and benefits, professional services, travel, etc. Grant expenses comprise 6% of the total, debt service expenditures 65%, and transfers to other state agencies 28%.

Expenditures for business-type activities totaled $17,513,637. The majority of expenditures for business-type activities were for debt service and grant expense, 61% and 24% of total expenditures respectively. Within the operating cost category salaries and benefits comprised 10% of total expenditures and all other operating costs such as professional services, repairs and maintenance, travel, supplies etc., were 5% of total expenditures.

Budgetary Highlights
For FY 2004 the NMFA completed the year with a favorable expenditure variance of $354,898 for its combined total of all budgeted funds (please see Table 3).

Table 3

Total of all Budgeted Program Funds

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Revenues:			
Administrative Fees	$ 823,047	$ 823,047	$ -
Set-aside Revenue	-	-	-
Reimbursement Revenue	1,769,019	1,032,659	(736,360)
Interest Income	-	-	-
Grant Revenue	-	-	-
Total Revenue	2,592,066	1,855,706	(736,360)
Operating Transfers in	2,471,914	2,471,914	-
Total Revenue and transfers in	$ 5,063,980	$ 4,327,620	$ (736,360)

	Y-T-D Budget	Y-T-D Actual	Variance Favorable (Unfavorable)
Expenditures:			
Current:			
Personnel Services	$ 1,130,205	$ 1,050,985	$ 79,220
Employee Benefits	484,095	438,721	45,374
In-State Travel	66,570	41,106	25,464
Office Supplies	33,000	30,301	2,699
Contractual Services	627,369	439,522	187,847
Operating Costs	272,209	262,482	9,727
Out-of-State Travel	24,996	13,147	11,849
Total Current Expenditures	2,638,444	2,276,264	362,180
Capital Outlay	61,002	68,284	(7,282)
Total Expenditures	$ 2,699,446	$ 2,344,548	$ 354,898

Capital Assets and Debt Administration

At the end of fiscal year 2004, the NMFA has invested a total of $46,023 net of depreciation in business-type activities and $23,010 in fixed assets for government-type activities. During FY 2004, capital outlay expenditures totaled $62,281. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 9 to the financial statements.

GASB Statement #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The NMFA does not own any infrastructure assets.

Long-Term Debt

The Authority's long term debt is all outstanding bond issues related to the various programs administered by the NMFA. At the end of fiscal year 2004, the total amount outstanding was $399 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority.) More detailed information about the Authority's long-term debt is presented in Note 10 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year's ended June 30, 2004 and 2003.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2004 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

- General operations of the NMFA, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board funded from the Water Project Fund;
- Administration of the Water Trust Board funded from the Emergency Drought Relief Declarations;
- Water and Wastewater Grant Fund (W/WWGF)program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) Program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF.
- The Economic Development Fund, funded from administration fees and cigarette tax revenue (new).

The Authority's primary operating budget for FY 2004 is $2,699,446, compared to the FY 2003 budget of $2,376,425, a 12% increase.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

New Mexico Finance NMFA
409 St. Michael's Drive
Santa Fe, New Mexico 87505

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NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 82,059,100	45,319,092	127,378,192
Receivables			
Taxes	1,358,595	1,951,709	3,310,304
Interest	-	3,036,590	3,036,590
Grant and other	-	3,029,573	3,029,573
Loans, net of allowance	500,000	312,377,608	312,877,608
Securities	-	13,783,817	13,783,817
Due from other funds	70,968	-	70,968
Due from other state agency	-	308,194	308,194
Cash and cash equivalents - restricted	38,545,216	98,177,380	136,722,596
Capital assets, net of depreciation	23,010	46,023	69,033
Deferred issuance costs	4,942,712	3,864,579	8,807,291
Other assets	70,112	7,610	77,722
Total assets	$ 127,569,713	481,902,175	609,471,888
LIABILITIES			
Accounts payable and accrued liabilities	461,152	777,191	1,238,343
Accrued payroll, fringe benefits and compensated absences	12,133	140,525	152,658
Accrued interest payable	853,685	815,253	1,668,938
Debt service payable	1,971,553	21,679,063	23,650,616
Long-term notes payable	2,000,000	-	2,000,000
Funds held for others	59,409	62,915,790	62,975,199
Due to other state agencies	-	552,138	552,138
Due to other funds	70,968	-	70,968
Bonds payable, current	13,722,931	18,696,000	32,418,931
Bonds payable, long term	129,806,742	236,833,363	366,640,105
Total liabilities	148,958,573	342,409,323	491,367,896
NET ASSETS			
Invested in capital assets	23,010	46,023	69,033
Restricted for			
Debt service	(55,077,839)	65,201,128	10,123,289
Program funds	33,665,969	73,466,310	107,132,279
Unrestricted	-	779,391	779,391
Total net assets	(21,388,860)	139,492,852	118,103,992
Total liabilities and net assets	$ 127,569,713	481,902,175	609,471,888

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Governmental - Activities	Business-type Activities	Total
Expenses - Capital Financing	$ 71,484,073	17,513,637	88,997,710
Program revenues			
Charges for services	2,306,199	12,803,198	15,109,397
Operating grants and contributions	1,255,000	4,368,348	5,623,348
Total program revenues	3,561,199	17,171,546	20,732,745
Net (expense) revenue	(67,922,874)	(342,091)	(68,264,965)
General revenues			
Taxes			
Governmental gross receipts and gross receipts taxes	16,499,786	18,368,369	34,868,155
Investment earnings	2,067,377	1,181,249	3,248,626
Other revenue	965,068	-	965,068
Total general revenues	19,532,231	19,549,618	39,081,849
Transfers	(999,821)	999,821	-
Change in net assets	(49,390,464)	20,207,348	(29,183,116)
Net assets - beginning	29,053,630	119,787,955	148,841,585
Transfer net assets	502,451	(502,451)	-
Restatement	(1,554,477)	-	(1,554,477)
Net assets - beginning, as adjusted	28,001,604	119,285,504	147,287,108
Net assets - ending	$ (21,388,860)	139,492,852	118,103,992

See Notes to Financial Statements.

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NEW MEXICO FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	Federal Highway Forest Road Financing Fund	Highway 44 Financing Fund	Metro Court Financing Fund
ASSETS			
Cash and cash equivalents	$ -	-	2,195,870
Tax revenue receivable	-	-	452,613
Other assets	-	-	-
Due from other funds	-	-	-
Due from other state agencies	-	-	-
Loans receivable	-	-	-
	-	-	2,648,483
Restricted Assets			
Cash and cash equivalents held for others by trustee			
Debt service	-	-	4,136,966
Bond reserve	-	-	70,128
Expense fund	-	-	-
Program - Grant proceeds for other state agency	-	-	-
Program - Bond proceeds	-	-	-
Total restricted assets	-	-	4,207,094
Total assets	$ -	-	6,855,577
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued liabilities	$ -	-	-
Debt service payable	-	-	111,140
Notes payable	-	-	-
Funds held for others	-	-	-
Due to other state agencies	-	-	-
Due to other funds	-	-	-
Total liabilities	-	-	111,140
Fund balances - reserved for			
Debt service	-	-	6,744,437
Special revenue funds	-	-	-
Total fund balances	-	-	6,744,437
Total liabilities and fund balances	$ -	-	6,855,577

See Notes to Financial Statements.

	State Building Program Cigarette Tax	State Building Purchase Fund	UNM Health Sciences	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	3,201,122	16,286,452	73,569	17,069,269	39,940,824	3,291,994	82,059,100
Tax revenue receivable	99,258	500,000	-	-	-	306,724	1,358,595
Other assets	70,112	-	-	-	-	-	70,112
Due from other funds	70,968	-	-	-	-	-	70,968
Due from other state agencies	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	-	500,000	500,000
	3,441,460	16,786,452	73,569	17,069,269	39,940,824	4,098,718	84,058,775
Restricted Assets							
Cash and cash equivalents held for others by trustee							
Debt service	-	-	-	-	-	57,977	4,194,943
Bond reserve	441,799	-	-	-	-	172,377	684,304
Expense fund	-	-	-	-	-	-	-
Program - Grant proceeds for other state agency	100,550	-	32,241,774	-	-	59,423	32,401,747
Program - Bond proceeds	902,322	-	-	-	-	361,900	1,264,222
Total restricted assets	1,444,671	-	32,241,774	-	-	651,677	38,545,216
Total assets	4,886,131	16,786,452	32,315,343	17,069,269	39,940,824	4,750,395	122,603,991
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable and accrued liabilities	-	-	241,602	4,682	10,262	216,739	473,285
Debt service payable	-	321,568	1,515,457	-	-	23,388	1,971,553
Notes payable	2,000,000	-	-	-	-	-	2,000,000
Funds held for others	-	-	-	-	-	59,409	59,409
Due to other state agencies	-	-	-	-	-	-	-
Due to other funds	-	-	-	67,960	-	3,008	70,968
Total liabilities	2,000,000	321,568	1,757,059	72,642	10,262	302,544	4,575,215
Fund balances - reserved for							
Debt service	-	16,464,884	30,558,284	-	-	1,766,064	55,533,669
Special revenue funds	2,886,131	-	-	16,996,627	39,930,562	2,681,787	62,495,107
Total fund balances	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,447,851	118,028,776
Total liabilities and fund balances	4,886,131	16,786,452	32,315,343	17,069,269	39,940,824	4,750,395	122,603,991

NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

Total fund balances - governmental funds		$ 118,028,776
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets	$ 43,763	
Accumulated depreciation	(20,753)	
		23,010
Bond deferred issuance costs		4,942,712
Accrued interest payable		(853,685)
Bond payable		(139,178,000)
Bond premium and discount, net		(4,351,673)
Net assets of governmental activities		$ (21,388,860)

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NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Federal Highway Forest Road Financing Fund	Highway 44 Financing Fund	Metro Court Financing Fund	State Building Program Cigarette Tax	State Building Purchase Fund	UNM Health Sciences	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
Revenues										
Tax revenue	$ -	-	5,968,450	$ 1,214,527	6,000,000	-	-	-	3,316,809	16,499,786
Grant revenue	-	-	-	-	-	-	-	-	1,255,000	1,255,000
Interest on loans	184,343	2,121,856	-	-	-	-	-	-	-	2,306,199
Interest on investments	-	-	332,125	115,977	438,344	39,716	268,330	774,364	98,521	2,067,377
Other revenue	-	-	-	-	-	-	-	-	-	-
Total revenues	184,343	2,121,856	6,300,575	1,330,504	6,438,344	39,716	268,330	774,364	4,670,330	22,128,362
Expenditures										
Administrative fee	-	-	140,225	-	48,975	-	-	-	38,592	227,792
Professional services	-	-	9,020	5,590	29,491	168,500	38,992	62,486	69,403	383,482
Salaries and fringe benefits	-	-	-	-	-	-	90,449	74,421	53,410	218,280
In-state travel	-	-	-	-	-	-	8,182	2,601	1,559	12,342
Maintenance and repairs	-	-	-	-	-	-	1,640	1,351	686	3,677
Operating costs	-	-	-	-	-	-	30,226	29,787	18,094	78,107
Grant expense	-	-	-	-	-	-	840,449	11,089,404	219,873	12,149,726
Total current expenditures	-	-	149,245	5,590	78,466	168,500	1,009,938	11,260,050	401,617	13,073,406
Debt service										
Principal payments	17,830,000	90,335,000	1,405,000	600,000	1,215,000	-	-	-	1,179,000	112,564,000
Interest expense	380,788	2,121,856	2,768,771	93,300	1,442,600	-	-	-	857,079	7,664,394
Bond issuance costs	-	-	-	-	22,238	-	-	-	-	22,238
Total debt service expenditures	18,210,788	92,456,856	4,173,771	693,300	2,679,838	-	-	-	2,036,079	120,250,632
Excess (deficiency) of revenues over expenditures	(18,026,445)	(90,335,000)	1,977,559	631,614	3,680,040	(128,784)	(741,608)	(10,485,686)	2,232,634	(111,195,676)
Other Financing Sources (Uses)										
Bond proceeds	-	-	-	-	-	39,035,000	-	-	-	39,035,000
Bond premium	-	-	-	-	-	965,068	-	-	-	965,068
Transfers (to) from other funds	-	-	(504,827)	(543,514)	-	-	40,873	8,826	(1,179)	(999,821)
Transfers to other state agencies	-	-	(19,902,751)	(94,150)	(20,219,812)	(9,313,000)	-	-	(1,588,475)	(51,118,188)
Total other financing sources (uses)	-	-	(20,407,578)	(637,664)	(20,219,812)	30,687,068	40,873	8,826	(1,589,654)	(12,117,941)
Net change in fund balance	(18,026,445)	(90,335,000)	(18,430,019)	(6,050)	(16,539,772)	30,558,284	(700,735)	(10,476,860)	642,980	(123,313,617)
Fund balances - beginning	18,026,445	90,335,000	25,174,456	2,892,181	-	-	17,697,362	50,407,422	5,359,348	209,892,214
Transfer in State Building Purchase Fund	-	-	-	-	502,451	-	-	-	-	502,451
Reclassification for change in fund type	-	-	-	-	32,502,205		-	-	-	32,502,205
Restatement	-	-	-	-	-	-	-	-	(1,554,477)	(1,554,477)
Fund balances - beginning, as adjusted	18,026,445	90,335,000	25,174,456	2,892,181	33,004,656	-	17,697,362	50,407,422	3,804,871	241,342,393
Fund balances - ending	$ -	-	6,744,437	$ 2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,447,851	118,028,776

See Notes to Financial Statements.

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NEW MEXICO FINANCE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

Net change in fund balances - governmental funds		(123,313,617)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Issuance of bonds		(39,035,000)
Bond debt service principal payments		112,564,000
Depreciation expense	(20,753)	
Capital outlay	43,763	
Excess of capital outlay over depreciation expense		23,010
Change from prior year in:		
Amortization of bond issuance costs		1,476,633
Amortization of net bond premium		(2,462,183)
Interest expense on long-term debt is recognized when paid under the modified accrual basis of accounting		1,356,693
Change in net assets of governmental activities		$ (49,390,464)

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NEW MEXICO FINANCE AUTHORITY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Totals
ASSETS						
Cash and cash equivalents	$ 231,116	42,929,616	2,158,360	$ -	-	45,319,092
Receivables						
Taxes	-	1,951,709	-	-	-	1,951,709
Interest	-	2,926,916	109,674	-	-	3,036,590
Grant and other	251,110	684,782	2,093,081	600	-	3,029,573
Due from other state agency	-	-	-	308,194	-	308,194
Due from other funds	-	-	-	-	-	-
Total current assets	482,226	48,493,023	4,361,115	308,794	-	53,645,158
Loans, net of allowance	-	287,162,350	19,551,047	-	5,664,211	312,377,608
Securities	-	13,783,817	-	-	-	13,783,817
Restricted assets - cash and cash equivalents	-	86,994,499	8,952,084	-	2,230,797	98,177,380
Capital assets				-		
Depreciable property and equipment, net	22,365	15,729	7,929	-	-	46,023
Deferred issuance costs, net	-	3,864,579	-	-	-	3,864,579
Other assets	7,610	-	-	-	-	7,610
Total assets	$ 512,201	440,313,997	32,872,175	$ 308,794	7,895,008	481,902,175
LIABILITIES						
Accounts payable and other liabilities	$ 39,594	431,854	179,281	$ -	-	650,729
Accrued payroll, fringe benefits and compensated absences	123,256	7,085	10,184	126,462	-	266,987
Accrued interest payable	-	815,253	-	-	-	815,253
Debt service payable	-	20,225,325	1,440,251	-	13,487	21,679,063
Funds held for others	-	55,176,496	7,281,360	-	460,750	62,918,606
Due to other state agencies	184,708	-	364,614	-	-	549,322
Due to other funds	-	-	-	-	-	-
Bonds payable, current	-	18,696,000	-	-	-	18,696,000
Total current liabilities	347,558	95,352,013	9,275,690	126,462	474,237	105,575,960
Bonds payable, long-term	-	236,833,363	-	-	-	236,833,363
Total liabilities	347,558	332,185,376	9,275,690	126,462	474,237	342,409,323
NET ASSETS						
Invested in capital assets	22,365	15,729	7,929	-	-	46,023
Restricted for:						
Debt service	142,278	36,078,349	23,588,556	-	5,209,613	65,018,796
Program funds	-	71,255,152	-	-	2,211,158	73,466,310
Unrestricted	-	779,391	-	182,332	-	961,723
Total net assets	164,643	108,128,621	23,596,485	182,332	7,420,771	139,492,852
Total liabilities and net assets	$ 512,201	440,313,997	32,872,175	$ 308,794	7,895,008	481,902,175

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Totals
Interest earnings						
Interest on loans	$ -	11,195,162	476,795	$ -	-	11,671,957
Interest on investments	3,688	793,237	231,387	-	152,937	1,181,249
Total interest earnings	3,688	11,988,399	708,182	-	152,937	12,853,206
Interest expense						
Debt service - interest expense	-	8,972,738	-	-	-	8,972,738
Net interest earnings	3,688	3,015,661	708,182	-	152,937	3,880,468
Provision for loan losses	-	-	-		-	-
Net interest earnings after provision for loan losses	3,688	3,015,661	708,182	-	152,937	3,880,468
Non-interest earnings						
Tax revenue	-	18,368,369	-	-	-	18,368,369
Federal grant revenue	-	-	2,588,550	-	-	2,588,550
Revolving loans grant revenue	-	-	1,779,798	-	-	1,779,798
Administrative fees	823,047	-	-	308,194	-	1,131,241
Total non-interest earnings	823,047	18,368,369	4,368,348	308,194	-	23,867,958
Non-interest expense						
Grant expense	-	3,054,734	-	-	-	3,054,734
Bond issuance costs	44,532	(157,884)	-	-	-	(113,352)
Administrative fee	-	-	34,345	-	-	34,345
Professional services	57,776	640,674	42,257	4,781	-	745,488
Salaries and fringe benefits	905,957	350,398	104,028	80,740	-	1,441,123
Technical set-aside expense	-	-	203,563	-	-	203,563
In-state travel	25,709	115	2,940	3,534	-	32,298
Out of state travel	9,544	400	2,121	20,172	-	32,237
Maintenance and repairs	11,062	6,121	1,881	1,367	-	20,431
Supplies	20,873	2,157	1,510	210	-	24,750
Operating costs	103,577	66,567	21,682	15,058	-	206,884
Depreciation	15,344	8,763	4,859	-	-	28,966
Total non-interest expense	1,194,374	3,972,045	419,186	125,862	-	5,711,467
Total non-interest earnings (expense) before transfers	(371,327)	14,396,324	3,949,162	182,332	-	18,156,491
Transfers						
Transfers in (out)	543,514	456,307	-	-	-	999,821
Transfers from (to) other state agencies	-	-	(2,345,384)	-	-	(2,345,384)
Transfers from (to) other governmental entities	-	(986,499)	-	-	-	(986,499)
Total transfers	543,514	(530,192)	(2,345,384)	-	-	(2,332,062)
Change in net assets	175,875	16,881,793	2,311,960	182,332	152,937	19,704,897
Total net assets - beginning, after transfer of State Building Purchase Fund to Governmental Fund	(11,232)	91,246,828	21,284,525	-	7,267,834	119,787,955
Total net assets - ending	$ 164,643	108,128,621	23,596,485	$ 182,332	7,420,771	139,492,852

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
COMBINED STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Fund	Totals
Cash Flows From Operating Activities						
Cash paid for employee services	$ (859,997)	(349,382)	(102,499)	$ -	-	(1,311,878)
Cash paid to vendors for services	(276,541)	(577,779)	(288,764)	-	-	(1,143,084)
Bond issuance costs paid	-	(1,659,798)	-	-	-	(1,659,798)
Interest expense paid	-	(8,902,444)	-	-	-	(8,902,444)
Grants awarded	-	(3,054,734)	-	-	-	(3,054,734)
Tax revenue	-	17,356,789	-	-	-	17,356,789
Cash received from federal government for revolving loans	-	-	1,779,798	-	-	1,779,798
Interest income received	3,688	10,547,334	686,662	-	152,937	11,390,621
Administrative fees received	584,327	-	-	-	-	584,327
Net cash (used) provided by operating activities	(548,523)	13,359,986	2,075,197	-	152,937	15,039,597
Cash Flows From Non-Capital Financing Activities						
Operating transfers	543,514	456,307	-	-	-	999,821
Cash paid to subrecipients for services	-	-	(2,345,384)	-	-	(2,345,384)
Federal grant revenue received	-	-	2,791,652	-	-	2,791,652
Cash provided (used) by funds held for others	(1,864,171)	36,469,625	(2,174,795)	-	441,083	32,871,742
Net cash provided (used) by non capital financing activities	(1,320,657)	36,925,932	(1,728,527)	-	441,083	34,317,831
Cash Flows From Capital and Related Financing Activities						
Securities	-	825,820		-	-	825,820
Loans funded	-	152,043,707	(1,779,798)	-	(1,000,000)	149,263,909
Loan payments received	-	(248,873,116)	751,056	-	253,093	(247,868,967)
Bonds issued	-	91,645,000	-	-	-	91,645,000
Payment of bonds	-	(18,447,780)	-	-	-	(18,447,780)
Fixed asset purchases	(21,061)	(16,468)	(7,404)	-	-	(44,933)
Net cash provided (used) by capital and related financing activities	(21,061)	(22,822,837)	(1,036,146)	-	(746,907)	(24,626,951)
Net increase (decrease) in cash and cash equivalents	(1,890,241)	27,463,081	(689,476)	-	(152,887)	24,730,477
Cash and restricted cash and cash equivalents - beginning of year	2,121,357	102,461,034	11,799,920	-	2,383,684	118,765,995
Cash and restricted cash and cash equivalents - end of year	$ 231,116	129,924,115	11,110,444	$ -	2,230,797	143,496,472
Reconciliation of operating income (loss) to net cash used by operating activities - operating income	$ 175,875	16,881,793	2,311,960	$ -	152,937	19,522,565
Adjustments to operating income						
Depreciation and amortization	15,344	(149,121)	4,859	-	-	(128,918)
Bad debt expense	-	-	-	-	-	-
Net transfers	(543,514)	(456,307)	-	-	-	(999,821)
(Increase) decrease in prepaids and receivables	(238,720)	(2,452,645)	(775,231)	-	-	(3,466,596)
Increase (decrease) in payables and other accrued liabilities	42,492	(463,734)	533,609	-	-	112,367
Net cash (used) provided by operating activities	$ (548,523)	13,359,986	2,075,197	$ -	152,937	15,039,597

NOTE 1. ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act), is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer, the Secretary of the Department of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, the Secretary of the Environment Department, the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, shall appoint to the Authority the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state except as specifically provided in the New Mexico Finance Authority Act.

The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

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.

The Authority is a governmental entity in accordance with Governmental Accounting Standard Board Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NOTE 1. ORGANIZATION (CONTINUED)

The financial reporting entity as defined by GASB Statement 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Authority includes only one function (infrastructure financing).

The net cost (by function or business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Authority does not currently employ indirect cost allocation systems.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals on the business-type activities (Enterprise) fund statements match the business type activities column presented in the government-wide statements, since there are no reconciling items.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

The financial transactions of the Authority are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

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GASB Statement 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The Authority uses the following fund types:

Governmental Fund Types. The focus of governmental fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority.

Special Revenue Funds. The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund - State Building Program-Cigarette Tax. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act in an amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds or any payments for refunding or redemption premiums on the bonds and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Special Revenue Fund - Water and Wastewater Project Grant Fund. This fund was created with the passage of Senate Bill 662 during the 1999 Legislative Session. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1 NMSA 1978, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project and to pay administrative costs of the water and wastewater project grant program.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any unexpended or unencumbered balance remaining at the end of the fiscal year shall not revert to the State's general fund. There was no sale of bonds made for this program for the year ended June 30, 2004.

Special Revenue Fund - Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 legislative session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Projects Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Special Revenue Fund - Water and Wastewater Planning Grant Fund The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant will not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

Special Revenue Fund - Emergency Drought Water Program Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund – Behavioral Health Clinic. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund so as to ensure availability of health and safe teaching environments.

Special Revenue Fund – Economic Development. This fund was created with the passage of Senate Bill 932 – Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislature. The purpose of the fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

Debt Service Funds. The debt service funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal, interest, and related costs.

Debt Service Fund - Administrative Fee Revenue Program (TRIMS Project). Chapter 125, Laws of New Mexico 1997 was enacted to authorize the Authority to sell up to $33,709,800 of bonds for the purpose of financing the New Mexico Taxation and Revenue Department (NMTRD) information management systems project (TRIMS Project). The TRIMS Project is an integration and updating of on-line, multi-user systems that process taxation, motor vehicle tax and fee collections, revenue distributions and information processing by the NMTRD. Revenue from NMTRD's administrative fees is pledged to repay the bonds. The Authority issued $17,440,660 of Administrative Fee Revenue Bonds Series 1997A in September 1997. The Authority issued the remaining $16,269,140 Administrative Fee Revenue Bonds Series 1999A in September 1999.

Debt Service Fund - Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - Highway 44 Financing Fund. Series 1998A Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 1998A Bonds were issued by the Authority to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the NMFA and NMSHTD. $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds was issued on September 1, 1998. The Obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a revenue pledge, which consists of certain revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. The bond was defeased on May 20, 2004 and the fund was closed out.

Debt Service Fund - Forest Highway Forest Road Financing Fund. Series 2001 Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 2001 Bonds were issued to finance the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21) to the extent for funding as part of the Federal Lands Highway Program and the New Mexico Statewide Transportation Improvement Program by the New Mexico State Highway and Transportation Department (NMSHTD). The Series 2001 Bonds are payable Solely from certain of the Authority's rights to payments under a Loan Agreement (Series 2001 Loan Agreement) between the NMFA and NMSHTD. The obligations of NMSHTD under the Series 2001 Loan Agreement are payable solely from and secured by a pledge of the "Pledge Revenues," which consist of certain revenues received by or on behalf of NMSHTD pursuant to Chapters 1 and 20 of Title 12, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. The bond was defeased on May 20, 2004 and the fund was closed out.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - Workers' Compensation Financing Fund. This accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the American with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint powers agreement to accomplish this purpose. $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of each calendar quarter, after all current obligations and any sinking fund requirements are met shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - State Capitol Improvement Financing Fund. The laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a State building located adjacent to the state capitol in Santa Fe known as the New Mexico state library and for relocation-associated renovations in the state capitol. $510,000 of revenue bonds were issued on May 17, 1999, and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, NMFA issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B, the proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

Debt Service Fund - Insurance Department Financing Fund. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $1 million for the purpose of financing information and communication equipment, including computer hardware and software, for the New Mexico Department of Insurance. The Legislature imposed a three-dollar ($3.00) surcharge on the annual continuation of appointment fees on approximately 60,000 insurance agents subject to the fees to provide security for the bonds. On April 18, 1996, the New Mexico Insurance Department requested the Authority to issue $525,000 of the authorized bonds for acquiring information and communication equipment. The

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

bonds were privately placed in a transaction that closed on May 23, 1996, and the proceeds were transferred to the New Mexico Department of Insurance. The pledged revenues are paid to the Authority. Pledged revenue in excess of debt service and related expenditures may be appropriated by the Legislature to the Department of Insurance for the acquisition of information and communication equipment.

Debt Service Fund - Court Automation Financing Fund. The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed $8.5 million for the purpose of financing acquisition of court automation systems for the state court system, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. $8.5 million of court automation fee revenue bonds were issued on June 25, 1996. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provisions of the motor vehicle code involving the operation of a motor vehicle. The pledged revenues are paid to the Authority. Pledged revenues in excess of debt service and related expenditures may be appropriated by the Legislature to the Administrative Office of the Courts for the acquisition of court automation systems. The Bond was defeased during 2001.

Debt Service Fund - State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping, and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of (1) purchasing the National Educational Association Building on South Capitol Street in Santa Fe, New Mexico, (2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico and (3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may included the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund –UNM Health Sciences. Chapter 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to (i) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center and (ii) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

Proprietary Fund Types. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

Enterprise Funds. Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The enterprise funds are as follows:

Enterprise Fund - Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978.

Of the GGRT revenues directed to the Authority's Public Project Revolving Fund, which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater grant project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund, and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities or "leveraged" by pledging the revenue

stream to the issuance of bonds and granting, or lending, the bond proceeds. All projects to be financed must be approved by the Legislature.

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) creates the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority.

The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities.

Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and, 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health, and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority for assistance to the Department and administration of the Primary Care Capital Fund.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Fund –GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B, and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of twenty-five basis points on the outstanding debt for: issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the New Mexico Department of Transportation. See note 16 for further detail.

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Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authorities enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting. Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the proprietary financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Accrual. The enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modified Accrual. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (amounts collected within 60 days after year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient. The Authority was unable to reasonably estimate the amount of revenue earned but not yet received by the Taxation and Revenue Department by the June 30 year-end. As a result, the amount is not included as revenue in the financial statements.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer are invested by the New Mexico State Treasurer in the "overnight" repurchase program.

Interest is credited to the various programs based on the programs average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statues require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State or as

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

Securities. The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds which are recorded at cost which approximates market value.

Loans. Loans are stated at their principal amount. Interest on loans is accrued for based on the daily principal balance outstanding except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on nonaccrual status.

Allowance for Loan Losses. The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors; including collateral value, past loan loss experience, current facts, and economic conditions. The allowance is based on management's estimates and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, any necessary adjustments are reported in income in the period they become known.

Capital Assets. Property, furniture and equipment purchased or acquired at a value of $1,000 or greater are capitalized. Property, furniture and equipment are stated at cost less accumulated depreciation. Furniture and equipment purchases with useful lives over one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years. Computer software is included in furniture and equipment. In addition, furniture and equipment 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. The Authority does not have any internally developed software.

Income Taxes. The Authority is a tax exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

Accrued Compensated Absences Payable. Full-time employees are entitled to ten days annual leave with four years or less employment with the Authority. Employees with more than four years receive fifteen days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Full-time employees are entitled to twelve days of sick leave each fiscal year. Part-time employees accrue annual leave and sick leave on a prorated basis based on the number of hours they work. A full-time employee may receive cash payment at a rate of 50% of their hourly wage for any accrued sick leave in excess of forty hours up to a maximum of one hundred twenty hours on the first full pay period in July. An employee may accrue a maximum of 1,040 hours. Accumulated sick leave is not compensated on termination of employment unless the employees retire. Then the employee can be paid for accrued sick leave in the excess of 600 hours at 50% of their hourly wage rate, not to exceed 440 hours. Accrued compensated absences are recorded in the operating fund.

Budgets and Budgetary Accounting. The Authority prepares a budget for the operations fund and for the DWRLF. Theses budgets are approved by the Authority's board but are not legally binding. The budgets are also amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the accounting on a budgetary basis and GAAP basis are that capital outlay is a budgetary expenditure and depreciation expense is not a budgetary expenditure.

Restricted Assets. Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "cash and cash equivalents held for others by the Authority" account is used to segregate bond proceeds that will be used for specific purposes as required by legislation. "Cash and cash equivalents pledged for repayment of bonds and bond expenses held by trustee" is used to report funds set aside for debt repayment, bond issuance, and other costs by the Authority.

Cash Flows. For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Discounts, Premiums and Issuance Costs. In governmental fund types, bond discounts, premiums and issuance costs are recognized in the current period. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity. Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

Net Assets. The government-wide and business types Fund Financial Statements utilize a net asset presentation. Net Assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets which have third-party (statutory, bond covenant or granting agency) limitations on their use when there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

Use of Estimates. The preparation of the 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 amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund and Interagency Transactions. Interfund and Interagency Transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other Interfund transactions, except reimbursements and administrative fee transactions are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. Interagency transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE

Funds held for other and short-term investments are held at the trustees in the name of the applicable government entity and the Authority's. The following is a reconciliation of cash and cash equivalents to the financial statements.

Cash and cash equivalents	Book Balance	Bank Balance
Government – Wide Statement of Net Assets		
State Treasurer Local Government Investment Pool	$ 140,587,116	140,382,546
Money market accounts invested in American Performance U.S. Treasury Fund	116,824,105	116,824,105
Repurchase agreements	6,548,450	6,548,450
Wells Fargo operating accounts	231,116	237,341
	$264,100,788	263,992,442
Agency Fund		
State Treasurer Local Government Investment Pool	$ 92,017,680	92,017,680
Money market accounts invested in Citigroup U.S. Treasury Fund	587,324,025	587,324,025
State Treasurer Repurchase Agreement	$ 100,187,128	100,187,128
	$779,528,833	779,528,833

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes deposits that are insured. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 represents deposits that are required by state statutes to be collateralized at a minimum level of 50%. All of the Authority's collected balances in bank accounts are invested in repurchase agreements. Deposits with the State Treasurer are not required to be categorized.

	Category 1	Category 2	Category 3	Bank Balance	Book Balance
Wells Fargo operating accounts	$	237,341		237,341	231,116

The New Mexico State Treasurer's Office is responsible to ensure that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the

NOTE 3. CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE (CONTINUED)

categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, 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 amounts were invested.

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered investments, or for which securities are held by the counter party's trust department or agent in the Authority's name. The Authority does not have any Category 1 investments. The Authority does not have any Category 2 investments. Category 3 represents uninsured and unregistered investments, not held in the Authority's name. The Authority does not have Category 3 investments.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The source of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts which invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations. The Authority's investments are held by financial institutions in the Authority's name.

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NOTE 4. LOANS RECEIVABLE

Loan receivable balances consist of the following at June 30, 2004:

Entity	Loan Balance
Proprietary funds	
Public Project Revolving Loan Fund	$ 288,021,506
Allowance for loan losses	(859,156)
	287,162,350
Primary Care Capital Fund	5,664,211
Drinking Water State Revolving Loan Fund	19,551,047
	312,377,608
Debt service funds	
Behavioral Health Clinic Fund	500,000
	$ 312,877,608

Public Project Revolving Loan Fund

The Public Project Revolving Fund loans receivable balance at June 30, 2004, is $288,021,506 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 80,731,423	40,223,321	120,954,744
July 1, 2009 to June 30, 2014	95,792,349	36,963,985	132,756,334
July 1, 2014 to maturity	111,497,734	28,400,322	139,898,056
	$288,021,506	105,587,628	393,609,134

An analysis for the allowance for loan losses is as follows:

Balance, beginning of year	$ 859,156
Provision for loan losses	-
Balance, end of year	$ 859,156

Management considers non-accrual loans to be impaired. As of June 30, 2004 there were no non-accrual loans. Based on management's analysis, there were no other impaired loans as of June 30, 2004.

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Primary Care Capital Fund. Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 2,326,937	721,212	3,048,149
July 1, 2009 to June 30, 2014	2,620,233	407,470	3,027,703
July 1, 2014 to maturity	717,041	18,910	735,951
	$ 5,664,211	1,147,592	6,811,803

No allowance for uncollectible loans has been established as the primary care facilities and loan repayments are secured by applicable sources of pledged receivables.

Drinking Water State Revolving Loan Fund. Terms for the Drinking Water State Revolving Loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedule after year end:

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 5,449,706	2,608,743	8,058,449
July 1, 2009 to June 30, 2014	5,861,851	1,591,140	7,452,991
July 1, 2014 to maturity	8,239,490	984,553	9,224,043
	$ 19,551,047	5,184,436	24,735,483

No allowance for uncollectible loans has been established as the Drinking Water Loans are secured by applicable sources of pledged receivables.

Behavioral Health Clinic Fund. The Behavioral Health Clinic loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedule after year end:

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 162,545	64,384	226,929
July 1, 2009 to June 30, 2014	176,326	36,989	213,315
July 1, 2014 to maturity	161,129	9,555	170,684
	$ 500,000	110,928	610,928

No allowance for uncollectible loans has been established as the Behavioral Health Clinic loan is secured by applicable sources of pledged receivables.

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 5. SECURITIES

At June 30, 2004, securities for the Public Project Revolving Fund (PPRF) consisted of $12,639,137 Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, and 1998B), $15,186 of Jemez Springs Bonds, and $1,129,494 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resource Bonds have interest rates ranging from 3% to 5.95% with final maturity on June 1, 2017. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45% with a final maturity on May 1, 2012. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19% with final maturity on May 1, 2008. The securities are carried at cost which approximates market value.

The following is a summary of future maturity and interest to be collected based on contractual maturity of the securities after year-end.

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	$ 5,080,921	3,027,052	8,107,973
July 1, 2009 to June 30, 2014	5,293,634	1,731,744	7,025,378
July 1, 2014 to maturity	3,409,262	357,300	3,766,562
	$ 13,783,817	5,116,096	18,899,913

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2004 consist of the following:

	Due To	Due From
Governmental Funds		
Water Trust Board	$ -	67,960
Emergency Drought Relief	-	3,008
	-	70,968
Enterprise Fund		
Operating Fund	70,968	-
	$ 70,968	70,968

The transfers between funds for the year ended June 30, 2004 include a transfer from the Cigarette Tax Fund to the Operating Fund to fund the operations of the Authority in the amount of $2,471,914.

NOTE 7. DUE TO /DUE FROM OTHER STATE AGENCIES

The following Enterprise Fund owed the following amounts to other state agencies at June 30, as follows:

The Drinking Water Revolving Loan Fund owed $364,614 to Environment Department for technical set-asides.

The following Enterprise Fund had amounts owed to the fund from other state agencies at June 30, as follows:

The GRIP Administrative Fund had $308,194 owed to the fund from the New Mexico Department of Transportation for administrative fees on the New Mexico Department of Transportation (NMDOT) Series 2004A, B, and C bond issues completed by the Authority on behalf of the NMDOT.

NOTE 8. TRANSFERS TO OTHER STATE AGENCIES

The following debt service funds transferred these amounts to other state agencies for the year ended June 30, 2004:

The Worker Compensation Financing Fund transferred $778,335 in order to rebate excess debt service funds back to the entity.

The Insurance Department Financing Fund transferred $758,095 in order to rebate excess debt service funds back to the entity.

The Administrative Fee Revenue Program Fund (TRIMS Project) transferred $20,008 in order to rebate excess debt service funds back to the entity. The bond issue related to this fund was paid off in fiscal year 2003.

The Metro Court Financing Fund transferred $1,500,000 in order to rebate excess debt service funds back to the Bernalillo County Metro Court. Additionally, $18,402,751 was transferred to the Metro Court Administrator for the construction and equipping of the new Bernalillo County Metropolitan Court Building and Metropolitan Court Parking Facility.

The State Building Purchase Fund transferred $16,126,214 in program fund requests to various entities and a $4,187,748 reversion to New Mexico State University.

The UNM Health Sciences Fund transferred $9,313,000 in program fund requests to the entity.

The Court Automation Financing Fund transferred $32,037 in order to rebate excess debt service funds back to the entity.

NOTE 8. TRANSFERS TO OTHER STATE AGENCIES (CONTINUED)

The following enterprise fund transferred these amounts to other state agencies for the year ended June 30, 2004:

The Drinking Water Revolving Loan Fund transferred $2,345,384 to the Environment Department for technical assistance performed in the Drinking Water Revolving Loan Fund.

NOTE 9. CAPITAL ASSETS

The capital asset activity for the year is as follows:

	Balance July 1, 2003	Additions	Deletions	**Balance June 30, 2004**
Enterprise Funds				
Depreciable assets				
Furniture, fixtures and equipment at historical cost	$ 255,789	44,933	-	300,722
Net fixed				
Accumulated depreciation:				
Furniture, fixtures and equipment	(225,733)	(28,966)	-	254,699
Capital assets, net	$ 30,056	15,967	-	46,023

Depreciation expense was $15,344 in the Operating Fund, $8,763 in the PPRF Funds and $4,859 in the Drinking Water Revolving Loan Fund for the year ended June 30, 2004.

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Funds				
Depreciable assets				
Furniture, fixtures and equipment at historical cost	$ -	36,424	-	36,424
Net fixed				
Accumulated depreciation:				
Furniture, fixtures and equipment	-	(13,414)	-	(13,414)
Capital assets, net	$ -	23,010	-	23,010

Depreciation expense was $6,196 in the Water/Wastewater Grant Fund, $4,984 in the Water Trust Fund, $876 in the Emergency Drought Relief Fund, and 1,358 in the Water Planning Grant Fund for the year ended June 30, 2004.

NOTE 10. BONDS PAYABLE

Bonds outstanding as of June 30, 2004, for the Authority's enterprise funds consist of:

Public Project Revolving Funds (PPRF).

PPRF Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A Bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investment securities.

PPRF Series 1999A, 1999B, 1999C, and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax-exempt) and Series 1999 and 1999D (taxable) in the aggregate amount principal amounts of $13,135,000, $3,025,000, $2,265,000, and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Loan Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

PPRF Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish, and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

PPRF Series 2000B and C. On September 1, 2000 the Authority issued $7,670,000 of Public Project Revolving Fund series B and $28,850,000 series C bonds. The series 2000B and C were issued to reimburse the Public Project Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2000B and C bonds.

PPRF Series 2002A. On July 2, 2002 the Authority issued $55,610,000 of Public Projects Revolving Fund series 2002A bonds. The series 2002A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2002A bonds.

NOTE 10. BONDS PAYABLE (CONTINUED)

PPRF Series 2003A. On April 3, 2003 the Authority issued $39,945,000 of Public Projects Revolving Fund series 2003A bonds. The series 2003A were issued to reimburse the Public Projects Revolving Fund for loans made by the NMFA to various Governmental Units and to reimburse the NMFA for and to finance the costs of issuance of the Series 2003A bonds.

PPRF Series 2003B. On June 5, 2003 the Authority issued $25,370,000 of Public Projects Revolving Fund series 2003B bonds. The series 2003B were issued to (i) refund the Authority's outstanding Public Projects Revolving Fund Revenue Bonds, Series 1995A maturing on and after June 1, 2006 and Public Projects Revolving Fund Revenue Bonds, Series 1996A maturing on and after Jun 1, 2007, and (ii) finance the costs of issuance of the Series 2003B bonds and the refunding of the Series 1995A and 1996A bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Projects Revolving Fund series 2004A Revenue bonds. The series 2004A were issued to (i) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004A bonds.

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Projects Revolving Fund series 2004B Revenue bonds. The series 2004B were issued to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004B bonds.

Bonds outstanding as of June 30, 2004, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds are for the designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

NOTE 10. BONDS PAYABLE (CONTINUED)

Insurance Department Financing Fund. On May 23, 1996, the Authority issued $525,000 of New Mexico Finance Authority Insurance Department Surcharge Revenue Bonds, which *was* refunded on December 1, 1998 and reissued at $400,000, to finance information and communication equipment for the New Mexico Department of Insurance. A $3 surcharge on insurance agent's annual fee is the only pledged revenue source for the repayment of the bonds and is paid to the Authority. The bond was paid off during 2003 and the fund closed out in 2004.

Administrative Fee Revenue Program Fund (TRIMS Project) Series 1997A and 1999A. On September 11, 1997 and September 20, 1999, the Authority issued $17,440,660 and $16,269,140 of New Mexico Finance Authority (TRIMS Project) revenue bonds, respectively. The bonds were issued to finance an information management system to assist in tax collections to be used by the New Mexico Taxation and Revenue Department (NMTRD). The principal and interest on the bonds are payable solely from and secured solely by the pledged revenues, which include revenues from administrative fees payable to and withheld by NMTRD from collections of municipal and country local option gross receipts taxes, and administrative fees from collections of solid waste assessment fees, boat excise tax and registration fees, tax intercept payments and water conservation fees, as well as proceeds of bonds and investment earnings on the proceeds and revenues. The bond was paid off during 2003 and the fund closed out in 2004.

Highway 44 Financing Fund. On September 1, 1998, the Authority issued $100,230,000 of Federal Highway Grant Anticipation Revenue Bonds. The bonds were issued to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico State Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the Authority and NMSHTD. The obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a pledge, which consist of revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. This bond was defeased on May 20, 2004 and the fund was closed out in 2004.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The Bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

NOTE 10. BONDS PAYABLE (CONTINUED)

Federal Highway Forest Road Financing Fund. On February 1, 2001, the Authority issued $18,535,000 of New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds, Series 2001. The Bonds were issued for the purpose of financing the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21). This bond was defeased on May 20, 2004 and the fund was closed out in 2004.

Metro Court Financing Fund. The laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds. Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds are being issued by the NMFA for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds are being issued pursuant to the bond resolution with a lien on the Pledged Court Facilities Revenues on parity with the liens thereon of the $21,600,000 New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A and the $11,400,000 New Mexico Finance Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

NOTE 10. BONDS PAYABLE (CONTINUED)

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to eighteen governmental entities in the state. On August 29, 1995, the Authority issued 2,904,000 aggregate principal amount of its Equipment Program Certificates of participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to thirteen local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation Series 1996B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

State Office Building Financing Fund. The laws of 2001, Chapter 166 and Chapter 199, authorized the Authority to issue revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds Series 2002A were issued on December 15, 2001, for the purpose of financing the costs of acquiring, constructing, equipping, and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

UNM Health Sciences Fund. Cigarette Tax series 2004A Revenue bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax series 2004A Revenue bonds (UNM Health Services Center Project). The series 2004A were issued to (i) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico, and (ii) finance the costs of issuance of the Series 2004A bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities. Total interest expense incurred on bonds in the enterprise funds, debt service funds, and special revenue funds were $8,972,738, $7,571,074 and $93,300, respectively, for the year ended June 30, 2004.

NOTE 10. BONDS PAYABLE (CONTINUED)

Bonds payable and related premium/discount balances consist of the following at June 30, 2004:

	Amount	Interest Rate	Final Maturity
Enterprise funds			
PPRF 1997A	$ 6,270,000	4.25-4.90	June 1, 2017
PPRF 1999A, B, C and D	16,215,000	3.30-6.30	June 1, 2018
PPRF 2000A	2,755,000	4.10-5.30	June 1, 2009
PPRF 2000B and C	16,474,838	4.75-5.50	June 1, 2030
PPRF 2002A	40,750,000	2.00-5.00	June 1, 2026
PPRF 2003A	36,312,000	2.00-4.75	June 1, 2032
PPRF 2003B	41,540,000	2.00-4.00	June 1, 2021
PPRF 2004A	42,105,000	2.25-5.85	June 1, 2022
PPRF 2004B	49,540,000	3.00-5.13	June 1, 2022
Bond premium and discount, net on enterprise funds	3,567,525		
	255,529,363		
To be paid out of Debt Service funds			
Special Cigarette Tax Revenue Bond	1,200,000	4.80-5.25%	June 1, 2006
Workers Compensation Financing Fund	3,310,000	5.00-5.60	Sept. 1, 2016
State Capitol Improvement Financing Fund	7,455,000	7.00	March 15, 2015
UNM Health Sciences	39,035,000	5.00-5.60	Sept. 1, 2016
Equipment Loan Fund	2,058,000	4.50-6.30	Various
Metro Court	54,685,000	4.00-5.00	June 1, 2021
State Building Purchase Fund	31,435,000	1.65-6.25	June 15, 2025
	139,178,000		
Bond premium and discount, net on debt service funds	4,351,673		
	143,529,673		
Total	$ 399,059,036		

NOTE 10. BONDS PAYABLE (CONTINUED)

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

	Principal	Interest	Total
2005	$ 32,418,931	17,128,892	49,547,823
2006	26,372,715	16,339,533	42,712,248
2007	25,939,154	15,423,274	41,362,428
2008	24,642,553	14,391,486	39,034,039
2009-2013	117,511,193	57,786,033	175,297,226
2014-2018	95,151,718	32,654,555	127,806,273
2019-2023	56,554,640	13,271,415	69,826,055
2024-2028	18,101,402	2,599,364	20,700,766
2029-2032	2,325,924	397,494	2,723,418
2033	40,806	2,050	42,856
	$ 399,059,036	169,994,096	569,053,132

The bonds payable and the related premium/discount activity for the year are as follows:

	Balance July 1, 2003	Additions	Deletions	**Balance June 30, 2004**
Enterprise Funds	$215,224,046	94,843,764	(54,538,447)	**255,529,363**
Debt Service Funds	182,144,321	41,084,291	(79,698,939)	**143,529,673**
	$397,368,367	135,928,055	(134,237,386)	**399,059,036**

The following bonds (more fully disclosed in note 16) were issued by the Authority in an agency capacity and are not included in the Authority's financial statements:

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation series 2004A Revenue bonds. The series 2004A were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Refunding Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation series 2004B Refunding Revenue bonds. The series 2004B were issued to provide funds to refund and restructure certain outstanding bonds of the NMFA and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and

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NOTE 10. BONDS PAYABLE (CONTINUED)

are not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Refunding Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation series 2004C Refunding Revenue bonds. The series 2004C were issued to provide funds to refund and restructure certain outstanding bonds of the NMFA and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

NOTE 11. OPERATING LEASES

The Authority is committed under various lease agreements for office space, copying equipment and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2004 amounted to approximately $132,000. Future minimum lease payments for these leases are as follows:

Year Ending June 30	
2005	$ 132,196
2006	7,525
	$ 152,422

NOTE 12. RETIREMENT PLAN

The Authority had established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $99,057, $104,809, and $91,277, for the years

NOTE 12. RETIREMENT PLAN (CONTINUED)

ended June 30, 2004, 2003, and 2002, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2004 Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

Statement of Fiduciary Net Assets

ASSETS	
Cash	$ 46,674
Self directed accounts (cash and investments)	466,591
Participant loan receivable	17,013
Total assets	$ 530,278
NET ASSETS	
Pension plan participants' benefits	$ 530,278

Statement of Changes in Net Assets:

ADDITIONS	
Investment earnings	$ 2,589
Employer contributions	99,057
Employee contributions	37,136
Total additions	138,781
DEDUCTIONS	
Distributions to participants	74,347
Investment expenses	5,413
Total deductions	79,760
Change in net assets	59,021
Net assets – beginning	471,257
Net assets – ending	$ 530,278

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NOTE 13. CONTINGENCIES

The Authority is exposed to various risks of loss for which the Authority carries insurance (Auto; Employee Fidelity Bond; General Liability, Civil Rights; Property; and Worker's Compensation) with the State of New Mexico Risk Management Division and with private insurance companies.

The Authority is not subject to any legal proceedings, claims or liabilities at June 30, 2004.

NOTE 14. COMPENSATED ABSENCES

During the year ended June 30, 2004, the following changes occurred in the compensated absences liabilities:

Balance July 1, 2003	Increase	Decrease	Balance June 30, 2004
$ 102,368	112,300	62,010	152,658

The portion of compensated absences due after one year is not material, and therefore, not presented separately.

NOTE 15. RESTATEMENT/RECLASSIFICATION

A prior period restatement of $1,554,477 was recorded to correct an overstatement of tax revenue in the Equipment Loan Fund in the 2003 financial statements.

The State Building Fund Program was reclassified from an Enterprise Fund to a Debt Service Fund as a result of a change in facts and circumstances in 2004. This resulted in a reclassification of equity of $502,451 due to the differing accounting treatment applicable to the two funds types with respect to the costs of issuance, interest payable and bond premium associated with the bond. In addition, the reclassification resulted in an additional $32,502,205 added to fund balance as the bond payable was no longer recorded in the fund financial statements.

NOTE 16. AGENCY TRANSACTIONS

BOND ISSUES

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

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15th. Interest with rates ranging from 3.8% to 5.25% per annum, is payable semi-annually on June 15th and December 15th through the year 2024.

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

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

The NMDOT is responsible for the Authority issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15th. Interest with rates ranging from 2% to 5% per annum, is payable semi-annually on June 15th and December 15th through the year 2014.

NOTE 16. AGENCY TRANSACTIONS (CONTINUED)

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

The Department is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15th with interest payable semi-annually on June 15th and December 15th through the year 2023. Interest is fixed at 3.393 % based on a swap agreement in place at June 30, 2004.

For the year ended June 30, 2004, the Authority has recorded $308,794 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2004, the Authority has $779,528,833 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

REFUNDING

The Authority, on behalf of the NMDOT, issued the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase US governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. On June 30, 2004, $381,835,000 of bonds outstanding is considered defeased.

INTEREST RATE SWAPS

Objective of the interest rate swaps. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2004, the Authority, on behalf of NMDOT, entered into interest rate swap agreements in connection with its $200 million 2004 Series C variable interest rate on the bonds. The intention of the swap was to effectively change the variable rate revenue on the bonds to a synthetic fixed rate.

NOTE 16. AGENCY TRANSACTIONS (CONTINUED)

The Authority, on behalf of the NMDOT, entered into forward-starting interest rate exchange agreements totaling $220,000,000. These agreements were entered into for the purpose of hedging the exposure of the NMDOT against interest rate fluctuations arising from the variable rates borne by variable rate bonds to be issued in the future.

Under the Forward Starting Swap Agreements, the Authority, on behalf of NMDOT, will be the fixed rate payor, paying the relevant Forward-Starting Counterparty a fixed rate of 4.732% per annum on the relevant notional amount beginning on December 15, 2006, and the Forward-Starting counterparty's amount beginning on December 15, 2006. There can be no assurance that the variable rate bond will be issued in the future, that such bonds will be in a principal amount equal to the aggregate notional amount of the Forward-Starting Swap Agreements or that the actual rate payable on such bonds will be the same as that payable by the relevant Forward-Starting Counterparty on the Forward-Starting Swap Agreements. If the actual rate payable on such bonds is less than that payable by the relevant Forward-Starting Counterparty, the NMDOT will need to use more Pledged Revenues to make the relevant payment than it would had it not entered into the relevant Forward-Starting Swap Agreement. The stated termination date under each Forward-Starting Swap Agreements will decline over the terms of the Forward-Starting Swap Agreements through December 14, 2026.

Terms. The Bonds and the $200 million swap agreements mature on June 15, 2024, and the swaps' notional amount of $200 million matches the $200 million variable-rate bonds. The swaps were entered at the same time the bonds were issued. Starting in fiscal year 2023, the notional value of the swaps and the principal amount of the associated debt will decline. Under the swap, the Authority, on behalf of the NMDOT, pays the counterparties a fixed payment of 3.934% and receives a variable payment computed as 68% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable-rate coupons are based on The Bond Market Association Municipal Swap Index (BMA).

Fair value. Because interest rates have declined since execution of the swaps, the swaps including the Forward-Starting interest rate swap agreements had a negative fair value of approximately $12,786,000 as of June 30, 2004. The swaps' negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds creating a lower synthetic interest rate. Because the interest rate on the NMDOT's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

NOTE 16. AGENCY TRANSACTIONS (CONTINUED)

Credit risk. As of June 30, 2004, the Authority, on behalf of the NMDOT, was not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority, on behalf of the NMDOT, would be exposed to credit risk in the amount of the derivatives' fair value. The swap counterparties were rated not less than Aa3 from Moody's investor Service and not less than AA-from Standard & Poor's (S&P) as of June 30, 2004. To mitigate the potential for credit risk, if the counterparty's credit quality falls below BBB-from S&P or Baa3 from Moody's Investor Services, the fair value of the swaps will be fully collateralized by the counterparties with US government securities. Collateral would be posted with a third-party custodian.

Basis risk. The swaps exposes the Authority, on behalf of the NMDOT, to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.934% and the synthetic rate as of June 30, 2004 of 4.2252%. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.05%, whereas 68% of LIBOR was 1.6%.

Termination risk. The Authority, on behalf of the NMDOT, or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Authority, on behalf of the NMDOT if the counterparty's credit quality rating falls below "BBB-1" from S&P or "Baa3" as issued by Moody's Investors Service. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swaps have a negative fair value, the Authority, on behalf of the NMDOT, would be liable to the counterparties for a payment equal to the swaps' fair value.

Swap payments and associated debt. Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates at June 30, 2004 remain the same* for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE 17. SUBSEQUENT EVENTS

After June 30, 2004, the Authority issued the following PPRF Direct Loans, Federal Drinking Water Loans, Water Wastewater Grants, Planning Fund Grants, and Primary Care Loans:

	Closing Date	Amount
PPRF Cash Loans		
City of Albuquerque Equipment Acquisition Project	7/13/04	$ 5,800,000
Dexter Consolidated School District Building Project	7/23/04	520,000
Village of Angel Fire Road Improvement Project	8/6/04	1,105,557
Town of Bernalillo Wastewater Project	8/6/04	555,556
Farmington Municipal School District Building Project	8/13/04	4,500,000
Village of Grady Equipment Acquisition Project	8/20/04	222,223
Town of Carrizozo Equipment Acquisition Project	8/20/04	30,000
City of Rio Rancho Equipment Acquisition Project	8/20/04	215,556
Des Moines Municipal School District No. 22 Infrastructure Project	8/20/04	175,000
City of Santa Rosa Equipment Acquisition Project (Interim)	8/20/04	119,880
Cuba Independent School District Building Project	8/27/04	450,000
Guadalupe County Equipment Acquisition Project	8/27/04	444,445
Guadalupe County Building Project	8/27/04	458,132
Colfax County - Philmont Fire District No. 1 Equipment Acquisition Project	8/27/04	311,112
Colfax County - French Tract District No. 5 Equipment Acquisition Project	8/27/04	166,667
Mosquero Municipal School District No. 5 Building Project	8/27/04	260,000
Village of Logan Equipment Acquisition Project (Interim)	8/27/04	70,000
East Rio Arriba SWCD Equipment Acquisition Project (Interim)	8/27/04	9,748
City of Albuquerque Building Project	9/9/04	5,700,000
Valencia County - Tome Adelino FD Equipment Acquisition Project	9/17/04	130,000
City of Raton Equipment Acquisition Project	9/17/04	73,000
Springer Municipal School District No. 24 Education Technology Project	9/17/04	250,000
Valencia County - El Cerro VFD Equipment Acquisition Project	9/17/04	194,445
Jicarilla Apache Utility Authority Water Project	9/20/04	11,415,429
City of Truth or Consequences Electric Project	9/20/04	1,625,693
City of Santa Fe Infrastructure Project	9/24/04	5,107,652
City of Santa Fe	9/24/04	579,000
City of Aztec Building Project	9/24/04	1,679,942
New Mexico State Fair/Expo New Mexico Infrastructure Project	9/30/04	5,555,556
Miners' Colfax Medical Center Building Project	10/8/04	10,822,812
City of Las Cruces Infrastructure Project	10/8/04	418,724
Albuquerque Bernalillo County WUA Water Project	10/13/04	108,415,000
Otero County Vehicle Acquisition Project	10/15/04	52,000
Carrizozo Municipal School District No. 7 Building Renovations	10/29/04	150,000
Hatch Valley Public Schools Building Renovations	10/29/04	450,000
		$ 168,033,129
Emergency Drought Relief		
Blanco MDWC and MSWA Emergency Water Project	8/20/04	$ 255,000
		$ 255,000

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NOTE 17. SUBSEQUENT EVENTS (CONTINUED)

	Closing Date	Amount
Federal Drinking Water		
Roosevelt County Water Cooperative, Inc. Water Project	9/17/04	$ 297,710
City of Santa Fe Buckman Supplemental Wells #10-13	9/24/04	7,070,000
Albuquerque Bernalillo County WUA Water Project	10/13/04	10,000,000
Total Federal Drinking Water		$ 17,367,710
Planning Grants		
White Cliffs MDWCA	7/16/04	$ 25,000
Coyote Creek MDWUA	7/23/04	25,000
Ensenada Mutual Domestic Water Association	7/30/04	11,250
Town of Elida	8/20/04	25,000
Total Planning Grants		$ 86,250
Water Wastewater Grants		
Village of Grady Water Project	7/23/04	$ 47,250
Dona Ana MDWCA Wastewater Project	7/23/04	400,000
Village of Floyd Water Storage Tank	8/20/04	172,770
City of Sunland Park Emergency Water Project	8/20/04	400,000
Gonzales Ranch MDWCA Water Project	8/27/04	428,490
Chamberino MDWC Water Project	10/22/04	21,563
Total Water Wastewater Grants		$ 1,470,073
Water Project Fund/Water Trust Board		
Taos Valley Regional Water San Juan/Chama Diversion Project	7/23/04	$ 1,700,000
Edgewood SWCD Watershed Restoration and Management	7/1/04	160,000
Santo Domingo Pueblo	7/22/04	1,148,000
Santo Domingo Pueblo	7/22/04	2,587,000
Middle Rio Grand Endangered Species Program	8/6/04	1,500,000
Ute Creek Soil and Water	9/3/04	328,279
Total Water Project Fund/Water Trust Board		$ 7,423,279
Cigarette Tax Revenue Bonds Series 2004B	9/22/04	$ 10,000,000
Total Cigarette Tax Revenue Bonds Series 2004B		$ 10,000,000
PPRF Revenue Bonds Series 2004C	10/13/04	$ 168,890,000
Total PPRF Revenue Bonds Series 2004C		$ 168,890,000

NEW MEXICO FINANCE AUTHORITY
AGENCY FUND
YEAR ENDED JUNE 30, 2004

ASSETS		
Cash at Trustee		
Program funds	$	737,181,359
Expense funds		342,153
Bond reserve funds		42,005,321
Total assets	$	779,528,833
LIABILITIES		
Accounts payable	$	283,048
Debt service payable		42,064,426
Funds held for the New Mexico Department of Transportation		737,181,359
Total liabilities	$	779,528,833

See Notes to Financial Statements.

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APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are extracts, supplementing the information in the body of the Official Statement, of certain defined terms in and provisions of the Indenture. These extracts do not purport to be complete. Please refer to the Indenture itself for a full and complete statement of such provisions. During the offering period of the 2005 Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the 2005 Bonds, copies of the Indenture may be obtained from the Trustee. See "ADDITIONAL INFORMATION."

CERTAIN DEFINITIONS

"Account" or "Accounts" means one or more of the special trust accounts created and established pursuant to the Indenture.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and as the same may hereafter be amended and supplemented.

"Additional Bonds" means any Bonds of the NMFA, authorized and issued under the Indenture, in compliance with the Indenture, except for the Series 1995A-B Bonds.

"Additional Pledged Loans" means any additional loans or securities which (i) were made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund and (ii) the payments of principal and interest on which have been specifically pledged by the NMFA to the payment of the Bonds and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Agreement" or "Agreements" means, as the case may be, one or more Loan Agreements, Grant Agreements or Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of a Project by the NMFA under the General Indenture.

"Agreement Pledged Revenues" means the pledged revenues designated by a Governmental Unit for payments to be made pursuant to the respective Loan Agreement, Security Documents or Securities.

"Agreement Reserve Fund" means the Agreement Reserve Fund established by the Indenture and each Agreement Reserve Account, if any, created by an Agreement.

"Agreement Reserve Requirement" for each Agreement establishing an Agreement Reserve Account, means the amount, if any, required by such Agreement to be allocated to an Agreement Reserve Account (relating to such Agreement) within the Agreement Reserve Fund.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax Exempt Bonds.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
CATEGORY I	100%
CATEGORY II	80%
CATEGORY III	50%
CATEGORY IV	0%

"Authorized Denominations" means, with respect to the 2005 Bonds, $5,000 or any integral multiple thereof and with respect to the Loans that are subject to the Sixty-Fifth Supplemental Indenture, $5,000 and any other dollar amount in excess of $5,000.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary or Treasurer, and when used with reference to any act or document also means any other person authorized by resolution of the NMFA to perform such act or execute such documents; (ii) in the case of a Governmental Unit, means the person or persons authorized by resolution or ordinance of the Governmental Unit to perform any act or execute any document; and (iii) in the case of the Trustee or the Paying Agent any person authorized to perform any act or sign any document by or pursuant to the bylaws or any resolution of the governing body of the Trustee or the Paying Agent, respectively.

"Beneficial Owner" means, while DTC or its nominee is the registered owner of the 2005 Bonds, any person entitled to receive payment of principal of, premium, if any, and interest on 2005 Bonds and otherwise exercise ownership rights with respect to 2005 Bonds.

"Bond Counsel" means nationally recognized bond counsel experienced in matters of municipal law, satisfactory to the Trustee and listed in the list of municipal bond attorneys, as published semiannually by The Bond Buyer, or any successor publication.

"Bond Documents" means collectively, the Loan Agreements, the Grant Agreements, the Securities, the Security Documents, and the Indenture.

"Bond Fund" means the fund by that name established by the Indenture to be held by the Trustee and used to pay amounts due on the Bonds.

"Bond Fund Year" means a twelve-month period commencing June 2 of each year and ending on the next succeeding June 1.

"Bond Registrar" or "Registrar" means the Trustee or any other registrar appointed under the Indenture.

"Bonds" means all Bonds issued and secured under the Indenture.

"Business Day" means any day, other than a day on which banks located in New York, New York or the cities in which the Principal Offices of the Trustee or the Paying Agent are located are required or authorized by law or executive order to close, or on which the New York Stock Exchange is closed.

"Cash Flow Statement" means an NMFA certificate (a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans and Grants or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate:

(A) the amount of NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(B) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(C) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding;

and (b) showing that in each such Bond Fund Year, the aggregate of the amount set forth in clause (A) of the definition divided by 1.35, plus the aggregate amount set forth in clause (B) of the definition, exceeds 100% of the aggregate of the amounts set forth in clause (C) of the definition.

For purposes of the foregoing definition the following assumptions will apply:

(i) NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12 month period in the 24 months next preceding the delivery of the Cash Flow Statement;

(ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(iii) Loans and Additional Pledged Loans will be assumed to remain in their then current category designations throughout the period projected in the Cash Flow Statement.

"Category I Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in at least the third highest full rating category or higher by the Rating Agency.

"Category II Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agency.

"Category III Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are not designated or rated or are designated or rated below the fourth highest full rating category by the Rating Agency, but excluding Category IV Loans and Additional Pledged Loans.

"Category IV Loans and Additional Pledged Loans" means all Nonperforming Loans and Additional Pledged Loans and Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been fully replenished in accordance with the related Agreement or loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agency.

"Cede" means Cede & Co. and any substitute nominee of DTC who becomes the Registered Owner of any 2005 Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and the applicable regulations thereunder.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the NMFA and the Trustee dated the date of issuance and delivery of the 2005 Bonds, as originally executed as it may be amended from time to time in accordance with the terms thereof.

"Covenant Default" has the meaning, if any, given in any Loan Agreement, Securities or Additional Pledges Loan.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York.

"Expense Fund" means the fund by that name established by the Indenture to be held by the Trustee.

"Funds and Accounts" means collectively, the Debt Service Fund and the Accounts created in the Indenture, the Agreement Reserve Fund and the Accounts created therein, the Program Fund and the Accounts created therein, the Expense Fund, the Rebate Fund and the Accounts created therein, the Revenue Fund, and the Bond Fund.

"Governmental Obligations" means direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Governmental Units" means any "qualified entity" under the Act which has executed and delivered to the NMFA a Loan Agreement, Grant Agreement or Securities for the purpose of financing all or a portion of a Project.

"Grant Agreements" means a grant or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and does not require payments by the Governmental Unit to be made thereunder.

"Grants" means collectively, the Grants made pursuant to the Grant Agreements.

"Indenture" means the General Indenture of Trust and Pledge and all Supplemental Indentures thereto as the same may be amended and supplemented.

"Interest Component" means the portion of each Loan Payment representing interest on the related Loan.

"Interest Payment Date" means, with respect to the 2005 Bonds, each June 1 and December 1, commencing December 1, 2005.

"Loan Agreement" means a loan or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and requires the Governmental Unit to repay the amounts advanced.

"Loan Payment" means the payments made by each Governmental Unit pursuant to the provisions of a Loan Agreement or Securities and which are to be used in accordance with the Indenture.

"Loan Payment Date" means the date specified in each Loan Agreement or Securities as the due date for Loan Payments.

"Loans" means collectively, the Loans made pursuant to the Loan Agreements and the Securities; excluding, however, all Additional Pledged Loans. Loans and Additional Pledged Loans may be evidenced by the same document containing two or more separate obligations.

"NMFA Portion of the Governmental Gross Receipts Tax" means an amount equal to 75% of the net receipts attributable to the governmental gross receipts tax levied pursuant to Section 7-9-4.3, NMSA 1978, as amended, and distributed to the NMFA pursuant to Section 7-1-6.38, NMSA 1978, as amended.

"Nonperforming Loans and Additional Pledged Loans" means Loan Agreements and Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a Covenant Default) or under which a delinquency exists in payments of principal or interest thereunder.

"Original Issue Date" means, with respect to the 2005 Bonds, the date of delivery thereof.

"Outstanding" or "Bonds outstanding" mean all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) any Bond (or any portion thereof) (i) for the payment or redemption of which there will be held in trust under the Indenture and set aside for such payment or redemption, moneys and/or Governmental Obligations (not callable at the option of the issuer thereof) maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Governmental Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or redemption price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which will be given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

(c) Bonds deemed paid pursuant to the provisions of the Indenture; and

(d) Bonds in lieu of which others have been authenticated pursuant to the Indenture.

"Participants" means underwriters, securities brokers and dealers, banks and trust companies, clearing corporations and other persons from time to time for which DTC or any successor Securities Depository holds 2005 Bonds as Securities Depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Paying Agent," when used with respect to the 2005 Bonds, means the person or persons authorized by the NMFA to pay the principal of, premium, if any, and interest on, the 2005 Bond on behalf of the NMFA, and initially is the Trustee.

"Permitted Investments" (i) with respect to the investment of the respective Accounts of the Program Fund, the Agreement Reserve Fund and the Debt Service Fund has the meaning set forth in each Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Expense Fund and the Rebate Fund or any other fund created under the Indenture, the following to the extent permitted by New Mexico law:

(a) Governmental Obligations;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);

(i) *Farmers Home Administration* (FmHA) Certificates of Ownership;

(ii) *Federal Housing Administration* (FHA) Debentures;

(iii) *General Services Administration* Participation certificates;

(iv) *Government National Mortgage Association* (GNMA or "Ginnie Mae") GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates);

(v) *U.S. Maritime Administration* Guaranteed Title XI financing;

(vi) *U.S. Department of Housing and Urban Development* (HUD) Project Notes and Local Authority Bonds;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself;

(i) *Federal Home Loan Bank System* Senior debt obligations (Consolidated debt obligations);

(ii) *Federal Home Loan Mortgage Corporation* (FHLMC or "Freddie Mac") rated AAA by Standard & Poor's and Aaa by Moody's. Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) *Federal National Mortgage Association* (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) *Student Loan Market Association* (SLMA or "Sallie Mae") Senior debt obligations;

(v) *Resolution Funding Corp.* (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(vi) *Farm Credit System* Consolidated systemwide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm" or "Aam" or by Moody's of "Aaa" including funds from which the Trustee or its affiliates revenue fees for investment advisory or other services to such funds.

(e) Certificates of deposit ("CD") secured at all times by collateral described in (a) and/or (b) above. CD's must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+"or better by S&P, and "Prime-1" or better by Moody's. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

(g) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1+" by S&P;

(j) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the NMFA by the Rating Agency;

(k) Investment contracts with providers the long term, unsecured debt organization of which are rated at least "A" by the Rating Agency; and

(l) deposits with the Treasurer of the State for investment in obligations described above.

"Prepayment" means the amount paid by a Governmental Unit pursuant to the provisions of its Loan Agreement or Securities as a prepayment of all or a portion of the principal balance due under its Loan Agreement or a prepayment of the principal amount of the Securities.

"Principal Component" means the portion of each Loan Payment representing principal on the related Loan.

"Program" means the NMFA's public project revolving fund program.

"Program Costs" means the fees and expenses payable to the Trustee, any Paying Agent and the NMFA.

"Program Fund" means the fund by that name which is created and established by the Indenture.

"Projects" means, collectively, the projects (i) authorized by the Legislature for financing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture and a Loan Agreement, Grant Agreement or Securities.

"Public Project Revolving Fund" means the public project revolving fund established pursuant to the Act.

"Purchasers" means, with respect to the 2005 Bonds, RBC Dain Rauscher Inc. and Cabrera Capital Markets, Inc.

"Rating Agency" means Moody's Investors' Service, Inc. or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

"Rebate Calculation Date" means, with respect to each Series of Bonds, the interest payment date next preceding the fifth anniversary of the issue date of such Series of Bonds, each fifth anniversary of the Initial Rebate Calculation Date for such Series of Bonds, and the date of retirement of the last bond for such Series.

"Rebate Fund" means the Fund so designated, which is created and established by the Indenture.

"Rebate Requirement" means the amount of arbitrage profits earned from the investment of gross proceeds of the Bonds in nonpurpose investments described in Section 148(f)(2) of the Code and defined as "Rebate Amount" in Section 1.148-3 of the Treasury Regulations, which are payable to the United States at the times and in the amounts specified in Section 148(f)(3) of the Code and Section 1.148-3 of the Treasury Regulations.

"Register" means the record of ownership of the 2005 Bonds maintained by the Registrar.

"Registered Owner" or "Bondowner" or "Owner" or "Bondholder" or "holder" means the person or persons in whose name or names a Bond will be registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture.

"Regular Record Date" means the fifteenth (15th) day immediately preceding each Interest Payment Date (or the Business Day immediately preceding such fifteenth (15th) day, if such fifteenth (15th) day is not a Business Day).

"Representation Letter" means the blanket representations letter from the NMFA to DTC in substantially the form attached to the Sixtieth Supplemental Indenture of Trust as Exhibit "B."

"Revenue Fund" means the Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund so designated, which is created and established by the Indenture to be held by the Trustee.

"Revenues" means (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund).

"Securities" means the securities purchased or acquired by the NMFA in consideration for a Loan made pursuant to the Indenture.

"Securities Depository" means the person who operates the computerized book entry system through which ownership interest in the 2005 Bonds may be recorded. Such entity shall at all times be a registered clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and in good standing thereunder.

"Security Documents" means the intercept agreements or other security documents delivered by Governmental Units to provide additional security for a Loan Agreement or Securities.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefore.

"Series 1995A-B Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1995A, in an initial aggregate principal amount of $41,230,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 1995B, in an initial aggregate principal amount of $4,000,000.

"Series 2000A Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 2000A, in an initial aggregate principal amount of $4,715,000.

"Series 2004B Bonds" means, collectively, the Series 2004B-1 Bonds and the Series 2004B-2 Bonds.

"Series 2004C Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004C, bearing interest at the rates herein described and in the aggregate principal amount of $168,890,000.

"Special Record Date" means a special record date established pursuant to the Indenture.

"State" means the State of New Mexico.

"Supplemental Indenture" means any supplemental indenture approved by the NMFA in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture.

"Trust Estate" means the property held in trust by the Trustee pursuant to the Granting Clauses of the Indenture.

"Trustee" means Bank of Albuquerque, N.A., Albuquerque, New Mexico and its successors and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Trustee at the time serving as successor Trustee under the Indenture.

THE INDENTURE

Registration and Exchange of Bonds

Books for the registration and for the transfer of the Bonds will be kept by the Trustee which is appointed the Bond Registrar with respect to the Bonds. Any Bond may, in accordance with its terms, be transferred only upon the registration books kept by the Bond Registrar, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Registrar, duly executed. No transfer will be effective until entered on the registration books kept by the Registrar. Upon surrender for transfer of any fully registered Bond at the principal corporate trust office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing and satisfactory to the Trustee, the NMFA will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees a new, fully registered Bond or Bonds for a like aggregate principal amount. Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series and the same maturity. The execution by the NMFA of any Bond of any authorized denomination will constitute full and due authorization of such denomination, and the Trustee will thereby be authorized to authenticate and deliver such Bond. The NMFA and the Trustee will not be required to transfer or exchange any Bond of a particular Series (i) during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date, (ii) during the period from and including the day fifteen days prior to any Special Record Date, to and including the date of the proposed payment pertaining thereto, (iii) during the period from and including the day fifteen days prior to the mailing of notice calling any Bonds of a particular Series for redemption, to and including the date of such mailing, or (iv) at any time following the mailing of notice calling such Bond for redemption.

The NMFA, the Bond Registrar and the Paying Agent may treat and consider the person in whose name each Bond is registered on the registration books kept by the Registrar as the holder and absolute owner thereof for the purpose of receiving payment of, or on account of, the principal or redemption price thereof and interest due thereon and for all other purposes whatsoever, and neither the NMFA, nor the Bond Registrar nor the Paying Agent will be affected by any notice to the contrary. Payment of or on account of either principal of or interest on any Bond will be made only to or upon order of the Registered Owner thereof or such person's legal representative, but such registration may be changed as hereinabove provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

The Trustee will require the payment by the Registered Owner requesting exchange or transfer, only of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

Nonpresentment of Bonds

In the event that any Bond are not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond are made available to the Trustee for the benefit of the holder or holders thereof, all liability of the NMFA to the holder thereof for the payment of such Bond will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds, without liability to the holders of such Bonds for interest thereon, for the benefit of the holder of such Bond who will thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond. Moneys so deposited with the Trustee which remain unclaimed four (4) years after the date payment thereof becomes due will, to the extent authorized by applicable law, at the request of the NMFA and if the NMFA is not at the time to the knowledge of the Trustee in default with respect to any covenant contained in the Indenture and if to the knowledge of the Trustee there has been no Event of Default, be repaid to the NMFA and the Owners of the Bonds for which the deposit was made will thereafter be limited to a claim against the NMFA; provided that the Trustee, before making payment to the NMFA, may cause a notice to be given to the Owners of the Bonds at their registered addresses, stating that the moneys remaining unclaimed will be returned to the NMFA after a specified date. Upon payment of such amounts to the NMFA by the Trustee, the NMFA will deal with such money as required by applicable law.

Covenants of the NMFA

The NMFA will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or Supplemental Indenture or in any Bond, including the following covenants and agreements:

Covenant Against Creating or Permitting Liens. Except for the pledge of the Trust Estate to secure payment of the Bonds, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto; provided, however, that (i) nothing contained in the Indenture will prevent the NMFA from issuing, if and to the extent permitted by law, indebtedness having a lien on the Trust Estate subordinated to that of the Bonds and (ii) Revenues constituting NMFA Portion of the Governmental Gross Receipts Tax and payments of Additional Pledged Loans not needed for payments under the Indenture in any Bond Year may be released to the NMFA free and clear of the lien as provided in the Indenture.

Existence; Compliance with Laws. The NMFA will take no action to discontinue maintenance of its existence nor to impair its rights, powers, privileges, and franchises, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements, and directions of any legislative, executive, administrative, or judicial body which may relate to the execution and delivery of the Bonds and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Grant Agreements, Security Documents and Securities; Exceptions, Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Grant Agreements, Security Documents and Securities except as specifically authorized in the Indenture in furtherance of the security for the Bonds; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan Agreement, Grant Agreement, Securities, or Additional Pledge Loan and complied with the other provisions thereof, the NMFA and the Trustee may release such Agreement or Additional Pledge Loan and any Security Documents from the pledge created under the Indenture; and (ii) the NMFA may direct the release of any Agreement or Additional Pledged Loan from the lien and pledge of the Trust Estate under the Indenture upon the delivery to the Trustee of a Cash Flow Statement reflecting such release. Except to the extent otherwise provided in the Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners may be impaired and will, from time to time, execute and deliver such further instruments and will take such further action as may be required to carry out the purposes of the Indenture.

Financing Statements. The NMFA and the Trustee will cause the Indenture to be filed as a financing statement with the Secretary of State of the State, in such manner and at such places as may be required by law fully to protect the security interest of the Owners in the Bonds and the right, title, and interest of the Trustee in and to the Trust Estate. From time to time, the Trustee may, but will not be required to, obtain an opinion of counsel setting forth what, if any, actions by the NMFA or Trustee should be taken to preserve such security. The NMFA will execute or cause to be executed any and all further instruments as may reasonably be requested by the Trustee for such protection of the interests of the Registered Owners, and will furnish satisfactory evidence to the Trustee that such actions have been taken and will take such other action as is necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds executed and delivered under the Indenture has been paid. The Trustee will execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as it may be advised by an opinion of Counsel may be necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the Principal of and interest on the Bonds have been paid.

Rights Under Loan Agreements; Grant Agreements, Security Documents and Securities. The Loan Agreements, Grant Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions of the Indenture, the Loan Agreements, Grant Agreements, Security Documents and Securities may not be effectively amended, changed, modified, altered or terminated without the prior written consent of the Trustee in accordance with the Indenture, and reference is made to the same for a detailed statement of said covenants and obligations of the Governmental Units thereunder.

Bonds to be Tax-Exempt Obligations. The NMFA covenants and agrees to and for the benefit of the Owners of Bonds that the NMFA (i) will not take any action that would cause interest on the Bonds to become subject to federal income taxation, (ii) will not omit to take or cause to be taken, in timely manner, any action, which omission would cause the interest on the Tax-exempt Bonds to become subject to federal income taxation, and (iii) will, to the extent possible, comply with any other requirements of federal tax law applicable to the Bonds in order to preserve the exemption from federal income taxation of interest on the Bonds. The provisions of this paragraph do not apply to Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

State Pledge of Non-Impairment. The State has pledged to and agreed with the Bondholders (as an obligation issued under the Act) that the State will not limit or alter the rights vested in the NMFA under the Act to fulfill the terms of the Indenture with the Bondholders or in any way impair the rights and remedies of those holders until the Bonds together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Deposit and Advance of Funds

The NMFA and the Trustee will deposit the proceeds of the Bonds to the Accounts created under the Indenture and will make the advances of funds thereunder to fund the Program and the NMFA will enter into the Loan Agreements and Grant Agreements with the Governmental Units and purchase and receive the Securities and Security Documents from the Governmental Units on the terms and conditions and upon submission of the documents as provided in the Indenture.

Loan Agreement and Securities - Loan Payments

The Loan Payments will be governed by the following provisions:

(a) Principal, Program Costs and Interest Components. A portion of each Loan Payment is paid as, and represents payment of, interest (the "Interest Component") on the related Loan and payment of a Program Cost component relating to each loan (the "Program Cost Component") and the balance of each Loan Payment is paid as, and represents payment of, principal (the "Principal Component") on the related Loan, all as set forth in the related Loan Agreement or Securities. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on each Loan Payment Date. The Interest Component of Loan Payments for each Loan Agreement will be the amount of interest based on a 360 day year comprised of twelve 30-day months, unless otherwise specified in the related Supplemental Indenture. The Program Cost Component may be included in the interest rate borne by a Loan.

(b) Loan Agreement and Securities Term. The "Term" of a Loan Agreement or Securities will be defined in the Loan Agreement or Securities. The Term will not exceed the useful life of the Project financed pursuant to the related Loan Agreement or Securities.

(c) Agreement Payment. Each Loan Agreement and Security will provide that the related Governmental Unit will pay Loan Payments directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less a 0.25% administration fee retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date. In the case of Securities, the Securities will be registered in the name of the Trustee or properly assigned to the Trustee on the books of any registrar for such Securities or, if in bearer form delivered to and held by the Trustee.

(d) Prepayments. The Loan Agreements and Securities may contain a provision permitting the Governmental Unit to prepay the Principal Component of the Loan Payments, in accordance with the provisions of the Loan Agreement and Securities by payment of Prepayments in whole on any date or in part on any Interest Payment Date, at any time when the related Series of Bonds are or are about to become subject to optional redemption upon not less than forty-five (45) days' prior written notice to the Trustee and subject to any other conditions set forth in the related Supplemental Indenture, Loan Agreement or Securities. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination. Each Prepayment will include interest to the date upon which the Trustee has scheduled a related redemption of Bonds as provided in the related Supplemental Indenture.

(e) Use of Reserve at Final Payment. At the time of payment in full of each Loan Agreement or Securities, the applicable Agreement Reserve Account in the Agreement Reserve Fund will be applied toward the final payment of amounts due under the related Loan Agreement or Securities.

Establishment of Funds and Accounts

There is established in the Indenture with the Trustee the following funds and accounts within funds, each of which will be held, for the term of the Indenture, in Accounts segregated from all other moneys of the Trustee or the NMFA.

(a) a Program Fund and within such fund a separate Account for each Agreement;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement, which separate Account is established and maintained by the NMFA;

(c) a Bond Fund;

(d) an Agreement Reserve Fund and within such fund, a separate Account for each Agreement which contemplates the establishment of an Agreement Reserve Account;

(e) an Expense Fund;

(f) a Rebate Fund and within such fund a separate Account for each Agreement; and

(g) a Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund (the "Revenue Fund") established as an account of the Public Project Revolving Fund.

In addition to the foregoing, with respect to Additional Pledged Loans the Trustee may, as directed in a Supplemental Indenture, establish subaccounts within the Program Fund, the Agreement Reserve Fund or the Debt Service Fund for such Additional Pledged Loans.

Flow of Funds

All Funds will be accounted for and maintained by the NMFA in the Funds and Accounts established in the Indenture. Each Fund and Account will be kept separate and apart from all other Funds and Accounts of the NMFA. The Funds will be expended and used by the Trustee and the NMFA only in the manner of order and priority specified below:

Program Fund. Upon the issuance of a Series of Bonds the Trustee will deposit an amount specified in the related Supplemental Indenture in the Program Fund and will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement. Disbursements from each Account within the Program Fund may be made in stages. Disbursements from each Account within the Program Fund with respect to an Agreement with a Governmental Unit will (except for amounts to be used for capitalized interest on the Loan and as may be directed in a Supplemental Indenture with respect to Grants) only be made upon the delivery to the Trustee of a requisition substantially in the form attached to each Agreement signed by an Authorized Officer of the Governmental Unit.

Application of Loan Payments. The flow of funds is discussed in the forepart of this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds."

Pursuant to the Supplemental Indenture authorizing the Series 2000A Bonds, the payments required to be made by the 2000A Governmental Unit pursuant to the 2000A Agreement are to be paid directly to the Trustee from the New Mexico Taxation and Revenue Department pursuant to an Intercept Agreement between NMFA and the 2000A Governmental Unit, and the Trustee is to deposit all such payments immediately upon receipt thereof as follows:

(i) moneys identified by the NMFA as being from the receipt of the Correctional Facility Tax will be deposited into the Series 2000A Correctional Facility Tax Account and moneys identified by the NMFA as being from the receipt of the 2000A Governmental Unit Gross Receipts Tax will be deposited into a Series 2000A Governmental Unit Gross Receipts Tax Account, both in the Series 2000A Tax Revenue Fund;

(ii) moneys on deposit in the Series 2000A Correctional Facility Tax Account will be applied as follows:

First: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent moneys are available for such purpose, to the payment of Program Costs;

Third: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Agreement Reserve Fund until such time as the balance on deposit in said Account equals the Agreement Reserve Requirement of such Account; and

Fourth: to the extent moneys are available for such purpose, to the Series 2000A Correctional Facility Tax Redemption Fund to annually redeem Series 2000A Bonds on or as soon as is reasonably practicable after June 2 from moneys deposited prior to the preceding June 1 in accordance with the Supplemental Indenture. Any excess Correctional Facility Tax revenues not applied to redemption will be returned to the 2000A Governmental Unit Debt Service Account.

(iii) moneys on deposit in the Series 2000A Governmental Unit Gross Receipts Tax Account will be applied as follows:

First: to the extent moneys from the Series 2000A Correctional Facility Tax Account deposited into the 2000A Governmental Unit Debt Service Account and the 2000A Governmental Unit Agreement Reserve Account in the Agreement Reserve Fund are insufficient to meet the then required principal and interest payments due or to next become due with respect to the 2000A Agreement, to the 2000A Governmental Unit's Debt Service Account the amount necessary to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent money from the Series 2000A Correctional Facility Tax Account are insufficient to pay the 2000A Governmental Unit's share of Program Costs, an amount necessary to pay such Program Costs; and

Third: to the 2000A Governmental Unit, the balance of the moneys remaining in the Series 2000A Governmental Unit Gross Receipts Tax Account as soon as reasonably practicable after June 2 of each year.

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement), will be deposited in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement, provided, however, that all earnings received on the Governmental Unit's Accounts will be allocated solely to the benefit of such Governmental Unit. The Trustee will notify the Governmental Unit at least fifteen (15) days prior to the due date of its next payment of Loan Payments of the amount of earnings so allocated.

In the event that the Trustee receives Prepayments under a Loan Agreement or Securities, the Trustee will apply such Prepayments to the mandatory redemption of the Bonds or portions thereof in accordance with the related Supplemental Indenture, except with respect to the Series 2004 B and Series 2004C Bonds, which are subject to the provisions of the Indenture discussed in the forepart of this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Application of Loan Prepayments."

At least once a year the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) to pay the Governmental Unit's share of Program Costs for the year, and will return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; provided, however, that with respect to Loans relating other than to the Series 2000A Bonds, any such excess will be disbursed as follows:

(a) Any excess attributable to earnings on funds and accounts for the Governmental Unit will be returned to the Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; and

(b) Any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the relevant Bonds will be deposited into the Revenue Fund; and, provided further, however, that with respect to the Series 2000A Loan Agreement, any such excess will be disbursed as provided in the second paragraph under this heading "Application of Loan Payments" above.

Amounts on deposit in the respective Account of the Agreement Reserve Fund in excess of the related Agreement Reserve Account Requirement will be transferred at least annually to the related Accounts of the Debt Service Fund and credited against payments next coming due under such Loan Agreement or Securities.

Amounts on deposit in the respective Account of the Agreement Reserve Fund will be applied toward the final payment of amounts falling due under the related Loan Agreement or Securities.

As provided in an Agreement, a Governmental Unit may (i) fund an Account in the Agreement Reserve Fund over time from deposits made by or on behalf of the Governmental Unit or (ii) may use any reserve fund surety or similar investments in lieu of a cash deposit to the Agreement Reserve Fund.

Amounts on deposit in each Agreement Reserve Account, if any, secure only the payments to be made under the related Agreement and may not be applied toward payments under any other Agreement or toward payment of the Bonds, except to the extent that amounts are due and owing under the related Agreement and amounts are not otherwise available for such payments in related Account of the Debt Service Fund.

All moneys held by the Trustee in the Bond Fund will be applied in accordance with the Indenture to pay the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and the interest on Bonds as it becomes payable. There will be deposited into the Bond Fund all accrued interest received, if any, at the time of the execution, sale and delivery of the Bonds.

Amounts remaining on deposit in the Bond Fund at the end of each Bond Fund Year and after payment of all amounts due on the Bonds for such Bond Fund Year will be transferred to the Revenue Fund.

Investment of Moneys

Any moneys held as part of a Governmental Unit's Account in any of the Funds established under the Indenture will be invested and reinvested by the Trustee at the direction of the related Governmental Unit in Permitted Investments in accordance with the following provisions.

Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due. In the absence of an appropriate direction from a Governmental Unit as to investment of funds, the Trustee will invest and reinvest such amounts in a daily money market fund which invests only in United States Government Obligations.

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established under the Indenture or (ii) by the NMFA as agent for the Trustee will be invested and reinvested by the NMFA or the Trustee, as the case may be, at the direction of the related Governmental Unit in Permitted Investments as directed by the Loan Agent or the Securities and in accordance with the following provisions.

The Trustee or the NMFA will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund or the Bond Fund will be invested and reinvested by the Trustee at the direction of the NMFA only in Permitted Investments in accordance with the Indenture. Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of the investments on deposit in the Bond Fund whenever the cash balance in the Bond Fund is insufficient to pay the principal of and premium, if any, and interest on the Bonds when due.

All such investments will at all times be a part of the account or fund from where the money used to acquire such investments was deposited and all gains thereon will be credited to, and losses thereon will be charged against, such accounts or funds except as expressly provided to the contrary in the Indenture.

All investments will mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the owner on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

The principal of the investments and the interest, income, and profits received in respect thereof will be applied as follows:

(i) all interest, income, and profits received in respect of the investment of the amounts on deposit in a Governmental Unit's Account in any of the Funds established under the Indenture will (after deduction of any losses) be retained in the applicable Governmental Unit's Account from which the investment was derived (except as otherwise required with respect to the Agreement Reserve Fund and deposits to be made to the Rebate Fund); and

(ii) all interest, income, and profits received in respect of the investment of the amounts on deposit in the Revenue Fund, the Rebate Fund or the Bond Fund will (after deduction of any losses) be retained in such Fund; and

(iii) whenever any other transfer or payment is required to be made from any particular Fund or Account, such transfer or payment will be made from such combination of maturing principal, redemption, or repurchase prices, liquidation proceeds, and withdrawals of principal as the Trustee deems appropriate for such purpose, after taking into account such factors as future transfers or payments from the Fund or Account in question, the reinvestment opportunities for maturing principal, the current yield on any permitted investments to be redeemed, withdrawn, or sold, and any penalties, gains, or losses to be realized upon any such redemption, withdrawal, or sale.

The Trustee will not be accountable for any depreciation in the value of the Permitted Investments or any losses incurred upon any authorized disposition thereof.

Method and Frequency of Valuation. In computing the amount in any Fund or account, Permitted Investments will be valued at least annually at cost, including commissions and accrued interest but excluding interest accrued following acquisition.

Defeasance

When there has been paid, or provisions for payment have been made to or for the holders and Owners of the Bonds, the principal of and premium, if any, and interest due or to become due on the Bonds at the times and in the manner stipulated therein, and if there has been paid to the Trustee and any paying agents all sums of money due or to become due according to the provisions of the Indenture, then the estate and rights granted by the Indenture will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture and on demand of the NMFA will execute such documents to evidence such release as will be reasonably required by the NMFA and will turn over to the NMFA all balances held by the Trustee under the Indenture (other than amounts required for return to the Governmental Units as provided in the Indenture).

Any Bond will be deemed to be paid within the meaning of and for all purposes of the Indenture when (a) payment of the principal of and the applicable premium, if any, on such Bond, whether at maturity or prior redemption plus interest thereon to the due date thereof, either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent has irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment, and/or (2) noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond is deemed to be paid under the Indenture, as aforesaid, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or noncallable Governmental Obligations.

Notwithstanding anything in the Indenture to the contrary, all moneys so deposited with the Trustee (or other escrow agent) as provided in the defeasance provisions of the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amount and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys have been so deposited, will be deposited in the Revenue Fund as and when realized and collected for use and application as are other moneys deposited in that fund.

All moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the defeasance provisions of the Indenture for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and noncallable Governmental Obligations have been so set aside in trust.

Neither the obligations nor the moneys deposited with the Trustee (or other escrow agent) pursuant to the defeasance provisions of the Indenture will be withdrawn or used for any purpose other than, and will be segregated and held in trust for, the payment of the principal or redemption price of, and interest on, the Bonds or portions thereof

Whenever moneys or obligations are deposited with the Trustee (or other escrow agent) for the payment or redemption of any Bonds more than sixty (60) days prior to the date that such Bonds are to mature or be redeemed, the Trustee will mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held, to all Owners of Bonds for the payment of which such moneys or obligations are being held.

Notwithstanding anything in the Indenture to the contrary, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the defeasance provisions of the Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture will be made without the consent of the Registered Owner of each Bond affected thereby.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on any Series of Bonds is paid by a bond insurer with respect to such Series of Bonds pursuant to a municipal bond insurance policy, the Bonds of such Series will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the NMFA, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the NMFA to the Registered Owners and related Security Instrument Issues of such Series of Bonds will continue to exist and will run to the benefit of such bond insurer, and such bond insurer will be subrogated to the rights of such Registered Owners and related Security Instrument Issues of such Series of Bonds.

Default Provisions and Remedies of the Trustee and Owners

Events of Default Defined. Each of the following events is an "Event of Default" under the Indenture:

(a) if payment of any installment of interest on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable; or

(b) if payment of the principal of or the redemption premium, if any, on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any fund hereunder or otherwise; or

(c) if the NMFA is for any reason rendered incapable of fulfilling its obligations under the Indenture; or

(d) if an order or decree is entered, with the consent or acquiescence of the NMFA, appointing a receiver or custodian for any of the Revenues of the NMFA, or approving a petition filed against the NMFA seeking reorganization of the NMFA under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the NMFA will not be vacated or discharged or stayed on appeal within 30 days after the entry thereof, or

(e) if any proceeding is instituted, with the consent or acquiescence of the NMFA, for the purpose of effecting a composition between the NMFA and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Revenues; or

(f) if (i) the NMFA is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the NMFA, a receiver, Trustee or custodian of the NMFA or of the whole or any part of their property and any of the aforesaid adjudications, orders, judgments or decrees is not vacated or set aside or stayed within 60 days from the date of entry thereof; or

(g) if the NMFA files a petition or answer seeking reorganization, relief or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the NMFA or of the whole or any substantial part of the property of the NMFA, and such custody or control is not terminated within 30 days from the date of assumption of such custody or control; or

(i) if the NMFA defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture or any Supplemental Indenture on the part of the NMFA to be performed, other than as set forth above in this section and such Default continues for 30 days after written notice specifying such Event of Default and requiring the same to be remedied has been given to the NMFA by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Remedies of the Trustee. If an Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce the rights of the Owners of the Bonds under the Indenture, including enforcing any rights under the Agreements and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds against the NMFA and any related Governmental Unit, and compel the NMFA and any related Governmental Unit, to perform or carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Indenture or in any Agreement (including the appointment of a receiver); or

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) intervene in judicial proceedings that affect the Bonds, the Agreements, or the security therefor; or

(d) exercise any or all remedies permitted under the Agreements or Security Documents; or

(e) cause the NMFA or any related Governmental Unit to account as if it were the Trustee of an express trust for all of the Revenues or Agreement Pledged Revenues, pledged under the Indenture or pursuant to the Agreements and any Security Documents.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by the Indenture may be enforced and exercised from time to time and as often as may be deemed expedient by the Trustee or the Owners.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners, the NMFA, and the Governmental Units will be restored to the former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Owners under the Indenture is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be extended without exhausting and without regard to any other remedy conferred by any law.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and the performance of the other agreements and covenants required to be performed by it contained in the Agreements and Security Documents, the Governmental Units will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Loan Payments, by the Trustee, or with respect to the performance by the NMFA of any right or obligation required to be performed by it contained in the Indenture or for the performance by any other Governmental Unit of such other Governmental Unit's obligations under an Agreement or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, for the appointment of a receiver or Trustee or for any other remedy, at law or in equity, unless:

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Owners of not less than a majority of the aggregate principal amount of the Bonds Outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;

(c) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

No one or more Owners has any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Bond Owners. Notwithstanding the foregoing, the Owner of any Bond has the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms of the Bonds and the Indenture and the principal of such Bond at the stated maturity of the Bonds and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights will not be impaired without the consent of such Owner.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee, provided that such direction is not in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Owners of Bonds.

Application of Funds Upon Default. All moneys received by the Trustee or by any receiver pursuant to any right given or action taken under the default provisions of the Indenture or under the provisions of the related Agreements, will, after payment of the reasonable costs and fees of, and the reasonable expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and all moneys so deposited during the continuance of an Event of Default (other than moneys deposited to the Bond Fund for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default), together with all moneys in the Funds maintained by the Trustee or the NMFA under the Indenture, will be applied as follows:

(a) Unless the principal of all Bonds shall have become due and payable, all such moneys will be applied, as follows:

First: To the payment to the persons or entity entitled thereto of all installments of interest then due on the Bonds, in the order of maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons or entity entitled thereto without any discrimination or privilege;

Second: To the payment to the persons or entity entitled thereto of the unpaid principal of and any of the Bonds which have become due (other than Bonds called for prepayment for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons or entities entitled thereto without any discrimination or privilege; and

Third: To be held for the payment to the persons entitled thereto as the same become due of the principal of, the premium, if any, and interest on the Bonds which may thereafter become due at maturity and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds becomes due and payable all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with the interest on overdue principal, as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other certificates, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee may determine, having due regard for the amount of such moneys available for such application in the future. Whenever the Trustee applies such moneys it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such date and of the Special Record Date in accordance with the Indenture. The Trustee will not be required to make payment to the holder of any unpaid Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and will do so upon the written request of the Registered Owners of (a) a majority in aggregate principal amount of all the Bonds then outstanding in respect of which Default in the payment of principal and interest exist, or (b) a majority in aggregate principal amount of the Bonds then Outstanding in the case of any other Event of Default; provided, however, that there will not be waived (i) any Event of Default in the payment of the principal of any Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such Event of Default has occurred on overdue installments of interest and all arrears of payments of principal and premium, if any, when due and all expenses of the Trustee, in connection with such Event of Default has been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the NMFA, the Trustee and the Registered Owners will be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any right consequent thereon.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The NMFA and the Trustee may, without consent of, or notice to, any of the Owners enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To provide for the issuance of Additional Bonds in accordance with the provisions of the Indenture;

(b) To cure any ambiguity or formal defect or omission in the Indenture;

(c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;

(d) To subject to the Indenture additional revenues, properties or collateral;

(e) To evidence the appointment of a separate Trustee or paying agent or the succession of a new Trustee or paying agent under the Indenture;

(f) To make any other change which in the judgment of the Trustee is not materially adverse to the interests of the Trustee or any of the Owners;

(g) To make any amendments with the prior written confirmation from of the Rating Agency that such amendments will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; and

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred upon the NMFA in the Indenture or any Governmental Unit or to grant additional powers or rights to the Trustee.

Supplemental Indentures Requiring Consent of Owners. Exclusive of supplemental indentures covered by the foregoing section and subject to the following terms and provisions and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing in this section or in the foregoing section will permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond, or (ii) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indentures, or (v) permit the creation of any lien ranking prior to the lien of the Indenture on the Trust Estate or any part thereof, or (vi) deprive the Owner of any Bond then outstanding of the lien created by the Indenture on the Trust Estate without the prior consent of 100% of the holders of the Bonds affected by such supplemental indenture. The Trustee may, but is not obligated to, enter into any such supplemental indenture which adversely affects the Trustee's rights, duties or immunities under the Indenture or the Agreements.

If at any time the NMFA requests the Trustee to enter into any such supplemental indenture for any of the purposes of this section, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be given by registered or certified mail to the owner of each Bond shown by the list of Owners kept at the office of the Trustee. Such notices will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners. If, within one hundred twenty (120) days or such longer period as the holders of not less than a majority in aggregate principal amount of the Bonds outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Governmental Units from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided, the Indenture will be and be deemed to be modified and amended in accordance therewith.

Amendment of Agreements and Security Documents.

(a) The NMFA will have the right to amend an Agreement and any existing Security Documents with the Consent of the Trustee and the related Governmental Unit without Bond Owners' consent, for one or more of the following purposes:

(i) to add additional covenants of the NMFA or the related Governmental Unit, as applicable, or to surrender any right or power conferred upon the NMFA or the related Governmental Unit;

(ii) to make any amendments with the prior written confirmation from the Rating Agency that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment;

(iii) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained therein or in any amendment thereto which may be defective or inconsistent with any other provision contained therein or in the Indenture or in any amendment thereto or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under any Agreement, or Security Documents which in the judgment of the Trustee do not adversely affect the interests of the Owners of Bonds; or

(iv) to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

(b) If the NMFA or a Governmental Unit propose to amend an Agreement or related Security Documents in a manner not contemplated by (a) above the Trustee will notify the Owners of the Bonds of the proposed amendment and may consent thereto with the consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding.

Fees, Charges and Expenses of the Trustee

Upon an Event of Default, but only upon an Event of Default, the Trustee will have a right of payment prior to payment on account of interest or principal of, or premium, if any, on any Bond for the Trustee's advances, fees, costs and expenses incurred.

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic descriptions are furnished for information only. The Bonds do not constitute a general obligation of the State and are special limited obligations of NMFA payable solely from the Trust Estate. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2005E Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Generally

The State was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 60% (mornings) to 30% (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from two inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per them and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the 12th fastest growing state, as the population increased 20.1% from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2%.

Most of this population growth is occurring in or near the large cities. There are four Metropolitan Statistical Areas (MSAs) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is in Doña Ana County; the Santa Fe MSA is in Santa Fe County; and the Farmington MSA is in San Juan County. The fastest growing counties in the state are Torrance, Lincoln, Valencia, Sandoval, Catron and Luna.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table presents quarterly average data on employment for the State by industry compiled by the State Department of Labor for the third quarter of 2004.

State of New Mexico
Employment by Industry Group*
Third Quarter 2004

Industry	Employment
Agriculture, Forestry, Fishing & Hunting	14,678
Mining	15,219
Utilities	5,665
Construction	55,629
Manufacturing	36,629
Wholesale Trade	22,332
Retail Trade	93,428
Transportation and Warehousing	23,194
Information	15,718
Finance & Insurance	22,899
Real Estate & Rental & Leasing	11,275
Professional & Technical Services	42,868
Management of Companies & Enterprises	5,070
Administrative & Waste Services	46,289
Educational Services	69,406
Health Care & Social Assistance	104,049
Arts, Entertainment & Recreation	19,623
Accommodation & Food Services	78,675
Other Services, Except Public Administration	22,613
Public Administration	57,963
Unclassified	558

* Employment is categorized using the North American Industry Classification System (NAICS).

Source: New Mexico Department of Labor

State of New Mexico and United States
Wages and Salaries by NAICS Industry Sector
2002-03*
(Thousands of Dollars)

	New Mexico		United States	
	2002	2003	2002	2003
Farm Total	$ 181,697	$ 195,636	$ 17,685,000	$ 17,615,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	$ 74,789	$ 76,857	$ 16,268,000	$ 16,720,000
Mining	666,601	695,759	30,801,000	31,339,000
Utilities	216,310	217,870	40,091,000	39,730,000
Construction	1,430,586	1,501,071	272,456,000	275,547,000
Manufacturing	1,457,202	1,447,682	675,577,000	668,863,000
Wholesale Trade	860,342	858,827	280,785,000	288,668,000
Retail Trade	1,969,036	2,032,030	360,278,000	367,393,000
Transportation & Warehousing	651,156	662,628	162,150,000	163,008,000
Information	539,600	530,421	189,553,000	185,231,000
Finance & Insurance	866,332	917,666	370,124,000	389,489,000
Real Estate & Rental & Leasing	304,635	270,228	71,781,000	74,773,000
Professional & Technical Services	2,157,001	2,329,132	415,708,000	423,353,000
Management of Companies & Enterprises	235,032	212,720	117,117,000	120,441,000
Administrative & Waste Services	1,016,736	1,047,283	193,267,000	198,122,000
Educational Services	200,784	213,494	74,475,000	78,991,000
Health Care & Social Assistance	2,343,974	2,541,405	472,294,000	500,208,000
Arts, Entertainment & Recreation	133,504	143,636	51,540,000	53,811,000
Accommodation & Food Services	903,921	936,745	153,869,000	159,632,000
Other Services, Except Public Administration	700,819	741,112	155,998,000	162,252,000
Non Farm Government				
Government & Government Enterprises	$ 7,058,204	$ 7,440,493	$ $850,528,000	$ 883,509,000
Non Farm Total	$23,786,564	$24,817,059	$4,954,660,000	$5,081,080,000
TOTAL	$23,968,261	$25,012,695	$4,972,345,000	$5,098,695,000

* Revised state personal income estimates for 2001-2003 were released March 28, 2005. These estimates incorporate newly available state-level source data. The next state annual personal income release is scheduled for September 28, 2005.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2005.

State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1995-2004

	Civilian Labor Force (000s)		Number Employed (000s)		Unemployment Rate		
Year	N.M.	U.S.	N.M.	U.S.	N.M.[1]	U.S.[1]	NM as % of U.S. Rate[2]
1995	798,621	132,304	744,557	124,900	6.8%	5.6%	121%
1996	812,862	133,943	751,826	126,708	7.5%	5.4%	139%
1997	822,627	136,297	768,596	129,558	6.6%	4.9%	135%
1998	835,879	137,673	783,661	131,463	6.2%	4.5%	138%
1999	839,988	139,368	793,052	133,488	5.6%	4.2%	133%
2000	850,846	142,583	808,544	136,891	5.0%	4.0%	125%
2001	861,626	143,734	819,413	136,933	4.9%	4.7%	104%
2002	875,389	144,863	827,533	136,485	5.5%	5.8%	95%
2003	893,396	146,510	840,858	137,736	5.9%	6.0%	98%
2004	911,940	147,401	859,962	139,252	5.7%	5.5%	104%

(1) Figures rounded to nearest tenth of a percent.
(2) Figures rounded to nearest whole percent.

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2005.

State of New Mexico and United States
Per Capita Personal Income
1995-2004[1]

	Per Capita Income			Annual % Change	
Year	New Mexico	U.S.	NM as % of U.S.[2]	New Mexico[3]	U.S.[3]
1995	18,426	23,076	80%	4.5%	4.1%
1996	19,029	24,175	79%	3.3%	4.8%
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77%	4.9%	6.1%
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,135	29,845	74%	5.2%	6.8%
2001	24,088	30,575	79%	8.8%	2.4%
2002	24,228	30,804	79%	0.6%	0.7%
2003	25,995	31,472	83%	7.3%	2.2%
2004	26,191	32,937	80%	0.8%	4.7%

(1) Revised state personal income estimates for 2001-2003 and summary preliminary annual state personal income estimates for 2004 were released March 28, 2005. These estimates incorporate newly available state-level source data. The next state annual personal income release is scheduled for September 28, 2005.
(2) Figures rounded to nearest whole percent.
(3) Figures rounded to nearest tenth of a percent.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2005.

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

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[Form of Modrall, Sperling, Roehl, Harris & Sisk, P.A. Opinion]

__________, 2005

New Mexico Finance Authority
207 Shelby Street
Santa Fe, New Mexico 87501

Bank of Albuquerque, N.A.
Trust Division
201 Third Street, Suite 1400
Albuquerque, New Mexico 87102

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds, Series 2005A and New Mexico Finance Authority Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B

We have acted as bond counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Public Project Revolving Fund Revenue Bonds, Series 2005A in the aggregate principal amount of $19,015,000, and its Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B in the aggregate principal amount of $13,500,000 (together, the "Series 2005A-B Bonds"). The Series 2005A-B Bonds are being issued for the purpose of providing funds (i) to make loans to, or to reimburse the NMFA for loans previously made to or for securities previously purchased from, certain governmental units within the State of New Mexico (each a "Governmental Unit") to finance a public project for the use and benefit of the respective Governmental Unit, and (ii) to pay the costs of issuance of the Series 2005A Bonds. The Series 2005B Bonds are being issued for the purpose of refunding and defeasing certain outstanding bonds of the NMFA, and (ii) to pay the costs of issuance of the Series 2005B Bonds

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 *et seq.*, NMSA 1978, as amended and supplemented (the "Act"). The Series 200A-B Bonds are authorized to be issued under and secured by a General Indenture of Trust and Pledge dated June 1, 1995, as heretofore amended and supplemented (the "General Indenture"), and as further amended and supplemented by a Sixty-fifth Supplemental Indenture of Trust dated as of June 1, 2005 (together with the General Indenture, the "Indenture") between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have reviewed the Indenture, certificates of the Attorney General of the State, as counsel to the NMFA, the NMFA, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, it is our opinion that:

1. The NMFA is a public body politic and corporate, separate and apart from the State, duly organized and validly existing under the laws of the State, and has lawful authority to issue the Series 200A-B Bonds.

2. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Trust Estate pledged under the Indenture to secure the payment of the principal of and interest on Series 2005A-B Bonds subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2005A-B Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Trust Estate and do not constitute a debt or liability of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2005A-B Bonds and the enforceability thereof and of the Indenture maybe subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Series 2005A-B Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2005A-B Bonds or any other offering material relating to the Series 2005A-B Bonds and we express no opinion relating thereto;

(d) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result; and

(e) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

Respectfully submitted,

[Form of Opinion of Ballard Spahr Andrews & Ingersoll, LLP]

__________, 2005

New Mexico Finance Authority
207 Shelby Street
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority Public Project Revolving Fund Revenue Bonds, Series 2005A, and New Mexico Finance Authority Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B

We have acted as special tax counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Public Project Revolving Fund Revenue Bonds, Series 2005A (the "Series 2005A Bonds") in the aggregate principal amount of $19,015,000 and its Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B, in the aggregate principal amount of $13,500,000 (the "Series 2005B Bonds" and, collectively with the Series 2005A Bonds, the "2005 Bonds"). The Series 2005A Bonds are being issued to (i) make loans to, or to reimburse the NMFA for loans previously made to or for securities previously purchased from, certain governmental units within the State of New Mexico (with the governmental units referred to in connection with the Series 2005B Bonds, each a "Governmental Unit") to finance a public project for the use and benefit of the respective Governmental Unit and (ii) to pay the costs of issuance of the Series 2005A Bonds. The Series 2005B Bonds are being issued for the purpose of refunding certain outstanding bonds of the NMFA issued (i) to finance public projects for Governmental Units and (ii) to pay the costs of issuance of the Series 2005B Bonds.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the 2005 Bonds. The NMFA and each Governmental Unit whose loans are being financed or refinanced with proceeds of the 2005 Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the 2005 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and each such Governmental Unit with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the 2005 Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as follows:

1. Interest on the 2005 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Under the laws of the State of New Mexico as enacted and construed on the date hereof, interest on the 2005 Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the 2005 Bonds; and

(b) although we have rendered an opinion that interest on the 2005 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2005 Bonds. The 2005 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of each series of the 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to DTC is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Bonds, except in the event that use of the book-entry system for the 2005 Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the 2005 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the NMFA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption price and principal and interest payments on the 2005 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption price, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2005 Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the NMFA does not have responsibility for distributing such notices to the Beneficial Owners.

The NMFA does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the 2005 Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the 2005 Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the 2005 Bonds.

APPENDIX F

OTHER NMFA PROGRAMS AND PROJECTS

Workers' Compensation Administration Building Financing

In 1994, the Legislature authorized the NMFA to sell $6,000,000 in revenue bonds for the acquisition of land and site improvements to the land and the planning, design, construction, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided for the pledge to the NMFA for payment of the revenue bonds associated with the WCA project of a portion of the quarterly Workers' Compensation assessment paid to the State. In July 1995, the NMFA publicly sold $2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold $4,310,000 in long-term bonds to retire the outstanding bonds and to finance the construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

In 1993, the Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of $6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center.

In 2003, the Legislature authorized the NMFA to issue up to $60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. In 2005, the Legislature authorized an additional $15 million of revenue bonds. NMFA is authorized to secure the additional bonds by a pledge of funds from the PPRF with a lien priority on the PPRF, as determined by the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA issued the first series of the bonds in an aggregate principal amount of $39,035,000 on April 1, 2004, and the second series of the bonds in an aggregate principal amount of $10,000,000 on September 22, 2004.

In 2005, the Legislature authorized the NMFA to issue revenue bonds secured by a distribution of cigarette tax receipts in an amount not to exceed $2,500,000 for the Behavioral Health Capital Fund and to issue revenue bonds in an amount not to exceed $39,000,000 for improvements to the southern New Mexico rehabilitation center, the Las Vegas medical center, the Fort Bayard medical center and for purchasing land, building, designing and constructing and equipping a state laboratory facility in Bernalillo County for the New Mexico Department of Health. Pursuant to the 2005 legislative authorization, the NMFA proposes to issues its Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, to be purchased with proceeds of its proposed Subordinate Lien Public Project Revolving Fund Revenue Bonds.

Primary Care Capital Fund

In 1994, a $5,000,000 revolving fund was created in the State treasury to be administered by the NMFA and from which loans and contracts for services would be provided to primary care health clinics and agencies in rural or other healthcare underserved areas of the State. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Department of Health and the NMFA have negotiated a joint powers agreement whereby the Department of Health will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Department of Health adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded thirteen loans totaling approximately $6,652,584.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to $1,585,000,000 in bonds for the purpose of financing state transportation projects. The NMFA sold $700,000,000 of its State Transportation Revenue Bonds (Senior Lien) Series 2004A, $237,950,000 of its State Transportation Refunding Revenue Bonds (Subordinate Lien) Subordinate and $200,000,000 of its Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C on April 30, 2004, for delivery on May 20, 2004. The Series 2004A bonds financed transportation projects of the State Department of Transportation. The Subordinate and Series 2005C bonds refunded and restructured the NMFA's outstanding Federal Highway Grant Anticipation Revenue Bonds, Series 1998A and Series 2001, and certain maturities of several issues of State Transportation Commission bonds, all of which were issued for the purposes of financing certain public highway projects in the State. The Bonds will be payable from State road fund and the State highway infrastructure fund.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was created in 1997. The Drinking Water Fund Act creates the New Mexico Drinking Water State Revolving Loan Fund (DWRLF). The NMFA administers the DWRLF. The purpose of the Drinking Water Fund Act is to provide local authorities with low-cost financial assistance in the construction and rehabilitation of drinking water facilities necessary to protect drinking water quality and the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act (SDWA), which required the Environmental Protection Agency (EPA) to make capitalization grants to the states to further the health objectives of the SDWA. The State has been awarded a total of $75,536,200 in capitalization grants from the U.S. Environmental Protection Agency through August 1, 2004, and has provided a total state match of $15,107,240 To date, the NMFA has funded 19 loans totaling approximately $28,530,071. The DWRLF has binding commitments to fund six additional loans totaling approximately $26,619,750.

Water and Wastewater Grant Fund Program

The Legislature established the Water and Wastewater Project Grant Fund in 1999. In 2000, the Legislature authorized the NMFA to issue up to $5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated $40,910,000 to the Water and Wastewater Grant Fund Program to fund 76 public water and wastewater systems. The Legislature has appropriated and authorized the use of $15,000,000 to the Water and Wastewater Grant Fund for emergency public purposes. In 2004, the Legislature authorized the NMFA to make grants to benefit 153 projects. The NMFA will fund grants for these projects on a first come, first served basis. As of January 31, 2005, the NMFA had made 115 grants totaling $44,644,019 and had approved an additional 38 projects, totaling $13,011,233. All funds in the Water and Wastewater Grant Fund have been obligated.

Local Government Planning Fund Program

The Water and Wastewater Planning Fund was created by the Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs and to pay the administrative costs of the program. In 2005, the Legislature changed the name of the fund to the Local Government Planning Fund and expanded the scope of the types of grants allowed under the statute to include water conservation plans, long-term master plans and economic development plans. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued $1,000,000 in revenue bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional $1,000,000 to this fund. As of January 31, 2005, the NMFA had made 28 grants totaling $607,400. Additionally, as of January 31, 2005, the NMFA had approved an additional 28 projects totaling $564,750.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue revenue bonds in an amount not to exceed $75,000,000 to finance several State building projects in Santa Fe, namely the National Education Association Building, a new office building with integrated parking at the West Capitol Complex, the Public Employees Retirement Association Building, and the purchase of land adjacent to the District 5 Office of the State Highway and Transportation Department. In 2005, the Legislature authorized an additional $15 million in revenue bonds and expanded the list of projects that would benefit from the bond proceeds to include a central capitol campus parking structure and a state laboratory facility in Bernalillo County.

The Bonds are payable from the State Building Bond Fund, consisting of funds appropriated and transferred to the fund as well as gross receipts tax revenues distributed to the Fund. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of $34,695,000 to finance a portion of the authorized projects.

The Legislature in 2003 authorized the NMFA to issue bonds in the amount of $5,760,000 for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The Bonds were purchased as securities with moneys on deposit in the public project revolving fund as authorized by State law.

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APPENDIX G

INFORMATION CONCERNING THE REFUNDED BONDS

The Refunded Bonds are identified below by maturity date, current principal amount, interest rate and CUSIP number. CUSIP numbers were assigned to the Refunded Bonds by the CUSIP Service Bureau and are included solely for the convenience of owners and beneficial owners of the Refunded Bonds. The NMFA is not responsible for the selection or the correctness of the CUSIP numbers shown below.

Public Project Revolving Fund Revenue Bonds, Series 1997

Maturity (June 1)	Principal Amount	Interest Rate	CUSIP Number
2008	$455,000	4.65%	64711MEZ6
2009	420,000	4.70	64711MFA0
2010	435,000	4.75	64744MFB8
2011	460,000	4.90	64711MFC6
2012	475,000	4.90	64711MFD4
2017	2,775,000	5.00	64711MFJ1

Public Project Revolving Fund Revenue Bonds, Series 2000B

Maturity (June 1)	Principal Amount	Interest Rate	CUSIP Number
2010	$355,000	4.80%	64711MLD7
2011	370,000	4.90	64711MLE5
2012	390,000	5.00	64711MLF2
2013	410,000	5.10	64711MLG0
2014	435,000	5.20	64711MLH8
2015	455,000	5.30	64711MLJ4
2016	485,000	5.30	64711MLK1
2017	510,000	5.40	64711MLL9
2018	540,000	5.40	64711MLM7
2019	565,000	5.50	64711MLN5
2020	370,000	5.50	64711MLP0

Public Project Revolving Fund Revenue Bonds, Series 2000C

Maturity (June 1)	Principal Amount	Interest Rate	CUSIP Number
2010	$880,000	5.00%	64711MLZ8
2011	105,000	5.00	64711MMA2
2012	490,000	5.15	64711MMB0
2013	130,000	5.25	64711MMC8
2014	135,000	5.35	64711MMD6
2015	145,000	5.45	64711MME4
2016	150,000	5.50	64711MMF1
2017	155,000	5.55	64711MMG9
2018	170,000	5.60	64711MMH7
2020	360,000	5.70	64711MMK0

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APPENDIX H

LOANS FINANCED WITH THE SERIES 2005A BONDS

The Governmental Units and the maximum reimbursable portions of the loans financed with the Series 2005A Bonds are listed in the following table. The maximum reimbursable portions may not match the amounts actually reimbursed with proceeds of the Series 2005A Bonds. Revenues from these Loans secure all of the Bonds (including but not limited to the Series 2005A Bonds).

Governmental Unit	Maximum Reimbursable Portion
Jicarilla Apache Tribe	$6,303,748
Hatch Valley Public School District #11	250,000
City of Carlsbad	370,803
Lincoln County – Bonito Volunteer Fire Department	129,881
Village of Questa	85,000
Silver City	186,296
City of Las Cruces	53,838
City of Santa Fe	1,050,000
San Miguel County	250,000
Gadsden Municipal Schools #6	1,500,000
Grant County Ft. Bayard Volunteer Fire Department	75,000
Taos County Hondo/Seco Fire Department	86,428
Union County Hospital	3,355,664
Village of Capitan	50,476
Town of Dexter	172,804
Village of Folsom	94,005
City of Santa Rosa	44,800
Lordsburg Municipal Schools	1,300,000
New Mexico Junior College	4,126,493

(1) Certain Agreements have Agreement Reserve Accounts funded with loan proceeds or equity contributions from the applicable Governmental Units in the aggregate amount of $1,766,473.66.

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APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ______________________________
Assistant Secretary

STD-R-7
01/05

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NEW ISSUE – BOOK-ENTRY ONLY
DAC Bond©

Ratings: Moody's: "Aaa"
S& P: "AAA"
Fitch: "AAA"
(See "RATINGS")

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2006B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2006B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006B Bonds. See "TAX MATTERS."

$38,260,000
NEW MEXICO FINANCE AUTHORITY
Senior Lien Public Project Revolving Fund
Revenue Bonds
Series 2006B

Dated: Delivery Date **Due:** June 1, as shown on inside cover

The New Mexico Finance Authority Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006B (the "Series 2006B Bonds") are being issued as fully registered bonds in denominations of $5,000 or any integral multiple of $5,000. The Depository Trust Company will act as securities depository for all of the Series 2006B Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each series and maturity of the Series 2006B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2006B Bonds will be made in book-entry form only, and beneficial owners of the Series 2006B Bonds will not receive physical delivery of bond certificates, except as described in this Official Statement. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Series 2006B Bonds.

The Series 2006B Bonds will be issued under and secured by a General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously amended and supplemented (the "General Indenture"), and as further amended and supplemented by a Sixty-Sixth Supplemental Indenture of Trust, dated as of May 1, 2006 (the "Sixty-Sixth Supplemental Indenture," and together with the General Indenture, the "Indenture"), between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee. Interest on the Series 2006B Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2006. Principal of the Series 2006B Bonds is payable in the amounts and on the dates, and interest is payable at the rates, shown on the Maturity Schedule set forth on the inside front cover.

SEE MATURITY SCHEDULE
ON INSIDE FRONT COVER

The Series 2006B Bonds are subject to redemption prior to maturity.

Proceeds of the Series 2006B Bonds will be used by the NMFA to (i) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans") and (ii) pay costs incurred in connection with the issuance of the Series 2006B Bonds. The principal of and premium, if any, and interest on the Series 2006B Bonds and additional bonds issued or to be issued are payable solely from and secured solely by the Trust Estate, which includes revenues from the repayment of certain Loans to Governmental Units, the NMFA Portion of the Governmental Gross Receipts Tax, and certain moneys in funds and accounts. The NMFA has issued or incurred and expects to issue or incur parity bonds and other obligations pursuant to the Indenture.

The Series 2006B Bonds are special limited obligations of the NMFA, payable, together with additional bonds issued or to be issued, solely from and secured solely by the Trust Estate. The Series 2006B Bonds will not constitute or create a general obligation or other indebtedness of the State of New Mexico, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The Series 2006B Bonds do not constitute or give rise to personal liability on the part of the members, directors or officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Simultaneously with the delivery of the Series 2006B Bonds, a financial guaranty insurance policy will be issued by MBIA Insurance Corporation insuring the payment of principal of and interest on the Series 2006B Bonds when due. See "BOND INSURANCE" herein.

MBIA

Certain legal matters concerning the legality of the Series 2006B Bonds will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2006B Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, for the NMFA, by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, and Lewis and Roca LLP, Phoenix, Arizona, for the Underwriters. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2006B Bonds. It is expected that a single certificate for each maturity of the Series 2006B Bonds will be delivered to DTC or its agent on or about June 27, 2006. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2006B Bonds.

RBC Capital Markets

Cabrera Capital Markets, Inc. **Ramirez & Co., Inc.**

Dated: May 25, 2006

Maturity Schedule

$38,260,000
New Mexico Finance Authority
Senior Lien Public Project Revolving Fund Revenue Bonds
Series 2006B

Year (June 1)	Principal Amount	Interest Rate	Yield	CUSIP Number
2007	$ 655,000	4.000%	3.600%	64711M X36
2008	1,195,000	4.000%	3.660%	64711M X44
2009	1,360,000	4.000%	3.690%	64711M X51
2010	1,415,000	4.000%	3.720%	64711M X69
2011	1,810,000	4.000%	3.770%	64711M X77
2012	1,870,000	4.250%	3.830%	64711M X85
2013	1,955,000	4.250%	3.940%	64711M X93
2014	1,735,000	5.000%	4.050%	64711M Y27
2015	1,825,000	5.000%	4.130%	64711M Y35
2016	1,710,000	5.000%	4.190%	64711M Y43
2017	1,560,000	5.000%	4.250%*	64711M Y50
2018	1,645,000	5.000%	4.300%*	64711M Y68
2019	1,730,000	5.000%	4.340%*	64711M Y76
2020	1,820,000	5.000%	4.380%*	64711M Y84
2021	1,915,000	5.000%	4.410%*	64711M Y92
2022	1,180,000	5.000%	4.430%*	64711M Z26
2023	1,245,000	5.000%	4.440%*	64711M Z34

$2,000,000 Series 2006B Term Bond due June 1, 2026 bearing interest at 5.000%, price 104.290%*, CUSIP Number 64711M Z67

$2,125,000 Series 2006B Term Bond due June 1, 2026 bearing interest at 4.250%, price 95.086%, CUSIP Number 64711M Z75

$7,510,000 Series 2006B Term Bond due June 1, 2036 bearing interest at 5.000%, price 103.397%*, CUSIP Number 64711M Z83

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*Reflects yield to first optional redemption date on June 15, 2016.

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the Series 2006B Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, any Governmental Unit or others since the date of this Official Statement.

THE PRICES AT WHICH THE SERIES 2006B BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGE. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE SERIES 2006B BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2006B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2006B Bonds have not been registered under the Securities Act of 1933, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such acts. The registration and qualification of the Series 2006B Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2006B Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the Series 2006B Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

NEW MEXICO FINANCE AUTHORITY
207 Shelby Street
Santa Fe, New Mexico 87501
Telephone: (505) 984-1454
Facsimile copy: (505) 984-0002

Members
Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Joanna Prukop, Secretary
Craig Reeves, Treasurer
Gary Bland
John A. Carey
Gustavo Cordova
Ron Curry
Edward Garcia
Rick Homans
Katherine B. Miller
James L. McDonough

Chief Executive Officer
William C. Sisneros

NMFA Counsel
Office of the Attorney General
State of New Mexico

Virtue Najjar & Brown PC
Santa Fe, New Mexico

Financial Advisor
Western Financial Group, LLC
Lake Oswego, Oregon

Bond Counsel
Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

Special Tax Counsel
Ballard Spahr Andrews & Ingersoll, LLP
Salt Lake City, Utah

Disclosure Counsel
Brownstein Hyatt & Farber, P.C.
Albuquerque, New Mexico

Trustee, Registrar and Paying Agent
Bank of Albuquerque, N.A.
Albuquerque, New Mexico

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OFFICIAL STATEMENT

$38,260,000
NEW MEXICO FINANCE AUTHORITY
Senior Lien Public Project Revolving Fund
Revenue Bonds
Series 2006B

INTRODUCTION

This Official Statement, which includes the cover page and appendices, provides information in connection with the offer and sale of the Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006B (the "Series 2006B Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2006B Bonds, together with additional bonds the NMFA has issued or may issue in parity with them, are collectively referred to in this Official Statement as the "Bonds." Capitalized terms used and not defined in the main body of this Official Statement have the meanings specified in the General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously amended and supplemented (the "General Indenture"), between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee (the "Trustee"), and as further amended and supplemented by the Sixty-Sixth Supplemental Indenture of Trust, dated as of May 1, 2006 (the "Sixty-Sixth Supplemental Indenture"), between the NMFA and the Trustee, and are presented under the caption "Definitions" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." The General Indenture and all Supplemental Indentures are collectively referred to in this Official Statement as the "Indenture."

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the Series 2006B Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State of New Mexico (the "State") in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations and to provide assistance and advice on the NMFA's Public Project Revolving Fund Program. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY" and the NMFA's financial statements included as Appendix A.

Purposes of the Series 2006B Bonds

Proceeds from the sale of the Series 2006B Bonds will be used by the NMFA to (i) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans") and (ii) pay costs incurred in connection with the issuance of the Series 2006B Bonds. See "THE PLAN OF FINANCING." See also Appendix G for a list of the Governmental Units and their outstanding loan balances.

Parity Obligations

Bonds with a lien on the Trust Estate in parity with the lien of the Series 2006B Bonds have been issued and may be issued to provide loans and grants to and to purchase securities from Governmental Units. For a description of the Bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds."

Subordinate Obligations

Obligations with a subordinate lien on the revenues from the NMFA Portion of the Governmental Gross Receipts Tax (as defined below) and Revenues from Additional Pledged Loans released from the lien of the Indenture have been issued and may be issued to provide loans to and to purchase securities from certain Governmental Units. For a description of the subordinate obligations currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Bonds."

Authority for Issuance

The Series 2006B Bonds are being issued under the authority of and pursuant to the laws of the State, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.*, NMSA 1978, as amended (the "Act"), and the Indenture. For a description of the Public Project Revolving Fund Program, see "NEW MEXICO FINANCE AUTHORITY – The Public Project Revolving Fund Program."

Terms of the Series 2006B Bonds

Payments

The Series 2006B Bonds will be dated the Delivery Date. Interest on the Series 2006B Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2006. The Series 2006B Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity) and will bear interest at the rates shown on the inside front cover of this Official Statement.

Denominations

The Series 2006B Bonds are issuable in denominations of $5,000 or integral multiples of $5,000.

Book-Entry System

Individual purchases will be made in book-entry only form, and purchasers of the Series 2006B Bonds will not receive physical delivery of bond certificates except as more fully described in Appendix E – "BOOK-ENTRY ONLY SYSTEM." Payments of principal of and interest on the Series 2006B Bonds will be made directly to The Depository Trust Company ("DTC") or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Upon receipt of such payments, DTC is to remit such payments to the DTC Participants (as defined below) for subsequent disbursement to the beneficial owners of the Series 2006B Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the Series 2006B Bonds are in book-entry only form, references in other sections of this Official Statement to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the Series 2006B Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption

The Series 2006B Bonds are subject to redemption prior to maturity. See "THE SERIES 2006B BONDS – Redemption."

Security and Sources of Payment for the Bonds

Special Limited Obligations

The Bonds, including the Series 2006B Bonds, are special limited obligations of the NMFA secured by and payable solely from the Trust Estate, which includes the Revenues described below and certain funds and accounts created and maintained pursuant to the Indenture. The Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Revenues

Revenues are defined by the General Indenture to mean:

- all revenues received or earned by the NMFA from or attributable to certain loan agreements (the "Agreements") (but excluding amounts paid as Program Costs);

- all revenues received or earned by the NMFA from or attributable to loans made or securities purchased from moneys in the Public Project Revolving Fund and pledged as "Additional Pledged Loans" under the Indenture;

- all revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax Revenues; and

- all interest earned on and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund).

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement; provided, however, that all earnings received on each Governmental Unit's Account will be allocated solely to the benefit of such Governmental Unit. For a description of the Agreements, the NMFA Portion of the Governmental Gross Receipts Tax and the Additional Pledged Loans, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues." For a description of the funds and accounts created by the Indenture, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Flow of Funds." See also Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Additional Bonds

The NMFA maintains an ongoing program to provide loans and to purchase securities from Governmental Units and expects to finance certain of those activities with the issuance of Additional Bonds in parity with the Series 2006B Bonds. The timing, amount and other details of such Additional Bonds are not known as of the date of this Official Statement.

The NMFA must meet certain requirements prior to the issuance of Additional Bonds or other obligations with a lien on the Trust Estate in parity with the lien of the Series 2006B Bonds. For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds." For a discussion of the outstanding Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds." The NMFA may not issue bonds or other indebtedness payable with a priority senior to the lien on the Trust Estate of the 2006B Bonds without the written consent of 100% of the owners of the

Outstanding 2006B Bonds. The NMFA has issued, and expects to issue in the future, indebtedness having a lien on the Trust Estate subordinate to that of the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Bonds."

Bond Insurance

Simultaneously with the delivery of the Series 2006B Bonds, a financial guaranty insurance policy (the "Bond Insurance Policy") will be issued by MBIA Insurance Corporation (the "Bond Insurer") insuring the payment of principal of and interest on the Series 2006B Bonds when due. See "BOND INSURANCE" herein.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2006B Bond Owners that, so long as the Series 2006B Bonds remain outstanding, the NMFA will provide certain annual financial information, operating data and audited financial statements with respect to the NMFA and each Governmental Unit expected by the NMFA to have loan repayment obligations in the then-current fiscal year constituting more than 20% of the estimated Revenues in the then-current fiscal year to each nationally recognized municipal securities information repository and notice of certain material events to the Municipal Securities Rulemaking Board in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in "CONTINUING DISCLOSURE UNDERTAKING."

In September 2004, the NMFA discovered that for fiscal years 2000-01, 2001-02 and 2002-03, certain information required to be filed under the terms of its continuing disclosure undertakings in effect at that time was not filed. The NMFA has since filed the information and believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings. The NMFA engaged Digital Assurance Certification, L.L.C., as disseminating agent, to assist with continuing disclosure compliance matters. See "CONTINUING DISCLOSURE UNDERTAKING."

Tax Considerations

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2006B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

In the opinion of such Special Tax Counsel to the NMFA, under existing laws of the State of New Mexico as currently enacted and construed, interest on the Series 2006B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006B Bonds.

The form of opinion to be delivered by Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, is included in Appendix D. For a discussion of such opinion and certain other tax consequences incident to the ownership of the Series 2006B Bonds, see "TAX MATTERS."

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2006B Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in the form included in Appendix D and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under "TAX MATTERS" and in the form included in Appendix D. Lewis and Roca LLP, Phoenix, Arizona, counsel for the Underwriters, Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, and Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure

Counsel to the NMFA, will deliver their respective opinions regarding certain legal matters, and the Office of the Attorney General of the State will deliver a no-litigation certificate. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2006B Bonds. See “FINANCIAL ADVISOR.”

The NMFA’s financial statements for the fiscal year ended June 30, 2005, included in Appendix A, have been audited by Meyners & Company, Certified Public Accountants, Albuquerque, New Mexico. See also “FINANCIAL STATEMENTS.”

Offering and Delivery of the Series 2006B Bonds

The Series 2006B Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate for each maturity of the Series 2006B Bonds will be delivered to DTC or its agent on or about June 27, 2006. The Series 2006B Bonds will be distributed in the initial offering by RBC Capital Markets, Ramirez & Co., Inc. and Cabrera Capital Markets, Inc. (the “Underwriters”), for which RBC Capital Markets is acting as managing underwriter and representative of the Underwriters (in that role, the “Representative”).

Other Information

This Official Statement speaks only as of its date, and the information in it is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents in this Official Statement do not purport to be complete, and reference is made to those laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Financial Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and any purchaser or holder of Series 2006B Bonds.

THE SERIES 2006B BONDS

Generally

The Series 2006B Bonds are being issued pursuant to the Act, the Indenture, and a resolution adopted by the NMFA. The Series 2006B Bonds are being issued to (i) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain Governmental Units for the purpose of funding public projects for such Governmental Units and (ii) pay costs incurred in connection with the issuance of the Series 2006B Bonds. For a description of the Public Project Revolving Fund Program, see “NEW MEXICO FINANCE AUTHORITY – The Public Project Revolving Fund Program.” For a description of the plan of financing, see “THE PLAN OF FINANCING.” For a description of certain provisions of the Indenture, see Appendix B – “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE.” Copies of the Indenture and a form of the Sixty-Sixth Supplemental Indenture are available as described under “ADDITIONAL INFORMATION.”

Description of the Series 2006B Bonds

The Series 2006B Bonds will be dated as of the Delivery Date. Interest will accrue on the Series 2006B Bonds from their Delivery Date at the rates presented on the inside front cover page of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), and is payable on June 1 and December 1 of each year, commencing December 1, 2006. The Series 2006B Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front cover (unless redeemed prior to maturity). The Series 2006B Bonds are issuable in denominations of $5,000 or integral multiples of $5,000 (the “Authorized Denominations”).

Book-Entry Only System

The Depository Trust Company will act as securities depository for all of the Series 2006B Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount and maturity of each series of the Series 2006B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2006B Bonds will be made in book-entry only form, and beneficial owners of the Series 2006B Bonds will not receive physical delivery of bond certificates, except as described in Appendix E. Upon receipt of payments of principal and interest, DTC will remit such payment to DTC participants for subsequent disbursement to the beneficial owners of the Series 2006B Bonds. For a more complete description of the book-entry only system, see Appendix E – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Generally

The Series 2006B Bonds are subject to optional redemption and mandatory sinking fund redemption upon prepayment of Loans prior to maturity, as described below.

Optional Redemption by the NMFA

The Series 2006B Bonds maturing on or after June 1, 2017 are subject to optional redemption at any time on and after June 1, 2016, in whole or in part, in such order of maturity as may be selected by the NMFA and by lot within each maturity (if in part, in integral multiples of $5,000), at the option of the NMFA, upon notice as provided in the Indenture and at the redemption price of 100% of the principal amount of the Series 2006B Bonds to be redeemed, but without premium.

Mandatory Sinking Fund Redemption

The Series 2006B Bonds maturing on June 1, 2026 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to 100% of the principal amount of each Series 2006B Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed	Coupon	CUSIP Number
2024	$620,000	-	-
2025	660,000	-	-
2026*	720,000	5.000%	64711M Z67

* Final Maturity

Redemption Dates (June 1)	Principal to be Redeemed	Coupon	CUSIP Number
2024	$690,000	-	-
2025	715,000	-	-
2026*	720,000	4.250%	64711M Z75

* Final Maturity

The Series 2006B Bonds maturing on June 1, 2036 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to 100% of the principal amount of each Series 2006B Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed	Coupon	CUSIP Number
2027	$700,000	-	-
2028	610,000	-	-
2029	640,000	-	-
2030	675,000	-	-
2031	710,000	-	-
2032	750,000	-	-
2033	790,000	-	-
2034	835,000	-	-
2035	875,000	-	-
2036*	925,000	5.000%	64711M Z83

* Final Maturity

If less than all of the Series 2006B Bonds of a series maturing on June 1, 2026 and June 1, 2036 are redeemed in a manner other than pursuant to a mandatory sinking fund redemption, the principal amount so redeemed will be credited toward a part or all of any one or more of any mandatory sinking fund payments for such Series 2006B Bonds, in such order as may be directed by the NMFA.

Notice of Redemption

In the event any of the Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Registered Owners of Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days, but not more than 60 days, prior to the redemption date.

In addition, further notice of any redemption of Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Registered Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the Bonds. Failure to give all or any portion of such further notice will not in any manner defeat the effectiveness of a call for redemption.

If at the time of mailing of any notice of redemption there are not on deposit with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Registered Owners of Bonds or portions thereof redeemed but who failed to deliver Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Registered Owners will not affect the validity of the proceedings for the redemption of the Bonds.

Partially Redeemed Bonds

In case any Bond is redeemed in part, upon the presentation of such Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the NMFA, a Bond or Bonds of the same series, interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Bond. A portion of any Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or an integral multiple of $5,000 and, in selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Bonds by $5,000.

Defeasance

When a Bond has been deemed to be paid under the Indenture, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment. Any Bond will be deemed to be paid for all purposes of the Indenture when (1) the principal of and the applicable premium, if any, on such Bond (whether at maturity or prior redemption) plus interest on the Bond to the Bond's due date either have been paid or have been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent shall have irrevocably set aside exclusively for such payment moneys sufficient to make such payment, and/or noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (2) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special Limited Obligations

The Bonds, including the Series 2006B Bonds, are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2006B Bonds do not constitute nor create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2006B Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Trust Estate

Generally

In the Indenture, the NMFA pledges and assigns the Trust Estate, first, for the equal and ratable payment of the Bonds. The Trust Estate includes:

- the Revenues, as described below under the caption "Revenues;"
- proceeds of the Bonds (until used as provided in the Indenture); and
- other moneys and securities held in the funds and accounts established and maintained by the Trustee under the Indenture, other than:
    - moneys and securities held in the Rebate Fund and any Agreement Reserve Account;
    - any Rebate Requirement not yet deposited in the Rebate Fund; and
    - certain moneys for the redemption or defeasance of Bonds.

As discussed under "Flow of Funds" below, revenues received from a Governmental Unit by the Trustee on behalf of the NMFA pursuant to a Loan Agreement are deposited in a separate account of the Debt Service Fund established for that Governmental Unit and are periodically transferred by the Trustee to the Bond Fund and used to make debt service payments on the Bonds. All revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax and from any Additional Pledged Loans are transferred to the Trustee and deposited in the Revenue Fund. Moneys in the Revenue Fund are used each Bond Fund Year to pay debt service on the Bonds to the extent that moneys in the several accounts of the Debt Service Fund are insufficient and to pay debt service on the portions of the Bonds used to finance grants. At the end of each Bond Fund Year moneys in the Revenue Fund in excess of the requirements for such moneys under the Indenture are transferred to the NMFA and deposited in the Subordinate Lien PPRF Revenue Fund. These moneys are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Revenues are deposited, see "Flow of Funds" below under this caption, and Appendix B - "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE - THE INDENTURE - Funds and Accounts." For a more complete description of the Revenue Fund, see "Flow of Funds Revenue Fund" under this caption.

Revenues

Generally

Revenues include:

- all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs);
- all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any;
- all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax; and
- all interest earned by and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund).

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Loan Agreement, provided, however, that all earnings received on the Governmental Units' Accounts will be allocated solely to the benefit of such Governmental Unit.

The Agreements and the Agreement Revenues

Generally. The Agreements consist of Loan Agreements and Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of their respective projects by the NMFA. (Under the Indenture, "Agreements" also includes Grant Agreements; however, the Grant Agreements contain no repayment provisions). Under each Loan Agreement or issue of Securities, the respective Governmental Unit pledges to the NMFA for payment of all amounts due under their respective Agreements (1) revenues of specific enterprise systems or revenues attributable to certain taxes (the "Agreement Revenues") and (2) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to pay principal of and interest on its loan promptly from its Agreement Revenues and to continue such payments until its Loan is paid in full.

Agreement Reserve Fund. Pursuant to the Indenture, an Agreement Reserve Fund has been created with the Trustee. The NMFA may require the establishment and funding of accounts within the Agreement Reserve Fund in connection with certain Agreements. Amounts in a Governmental Unit's account of the Agreement Reserve Fund will be withdrawn by the Trustee and deposited into that Governmental Unit's account of the Debt Service Fund to the extent of any shortfall in payments by such Governmental Unit under its Agreement. A sub account may also be created within a Governmental Unit's account to secure payments on an Additional Pledged Loan. Amounts in a Governmental Unit's account of the Agreement Reserve Fund will not be used to cover shortfalls in payments of other Governmental Units and will not otherwise be available to defray deficiencies in the Bond Fund. See "PLAN OF FINANCING – Estimated Sources and Uses of Funds" and "Flow of Funds" below under this caption.

The NMFA will fund with loan proceeds, a reasonably required debt service reserve fund for all Loans unless any one of the following conditions exist:

- The Loan is less than $100,000;

- The Governmental Unit has created general obligation debt secured by its taxing power and full faith and credit, whereby the Governmental Unit is required by law to adjust the property tax levy sufficient to meet principal and interest due on bonds within the next year;

- The Governmental Unit has demonstrated ability to meet prior debt obligations and has sufficient staffing to manage timely loan payments for a loan secured by a revenue with an underlying rating of at least a "AA" from one of the three nationally recognized rating agencies;

- The Governmental Unit has agreed to purchase a surety policy to enhance the Loan, in the type and manner acceptable to the NMFA; or

- The Loan is secured by State Fire Protection Funds or State Law Enforcement Funds and has a minimum coverage of 2.0x.

In lieu of a bond-funded debt service reserve fund, the NMFA may allow a Governmental Unit to build its debt service reserve fund over a maximum of three years with excess revenues, provided: (1) the Governmental Unit has demonstrated ability to meet prior debt obligations and has sufficient staffing to manage timely loan payments; and (2) it is determined that the use of excess revenue collections to build the debt service reserve fund will not impair the Governmental Unit's ability to provide governmental services.

Agreements with Governmental Units. Each Governmental Unit that has entered into a Loan Agreement or has issued Securities has pledged specific Agreement Revenues to the repayment of its Loan. See Appendix G for a list of the Governmental Units and the allocable portions of the Loans financed with the Series 2006B Bonds.

The following table lists the ten Governmental Units with Loan repayment obligations, based on scheduled payments in fiscal year 2006-07 and assuming no prepayment, are expected to generate the highest percentages of estimated annual Revenues in fiscal year 2006-07.

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Governmental Units with Loans Expected to Generate the Highest Percentages of Estimated Annual Pledged Revenues Based on Scheduled Fiscal Year 2006-07 Loan Payments

Borrower	FY 2006-07 Debt Service	% of Projected FY 2006-07 Pledged Revenues	Final Maturity
Albuquerque Bernalillo County Water Utility Authority	6,251,136	9.61%	5/1/2024
City of Albuquerque[(1)]	2,819,787	4.34%	5/1/2027
State Energy, Minerals and Natural Resources Department	2,260,226	3.48%	7/1/2023
Farmington Municipal Schools	2,106,783	3.24%	5/1/2015
Gallup McKinley School District	1,666,570	2.56%	8/1/2024
Taos County	1,530,136	2.35%	6/1/2021
Valencia County	1,436,490	2.21%	8/1/2019
Miners' Colfax Medical Center	1,250,282	1.92%	5/1/2017
City of Santa Fe	1,206,365	1.85%	6/1/2036
City of Gallup	964,475	1.48%	5/1/2021

(1) Assumes City of Albuquerque Loans are paid on June 30 of each fiscal year, rather than on the succeeding July 1, as required by the related Agreements.

Source: New Mexico Finance Authority.

No Obligation of Governmental Units to Cover Shortfalls. A Governmental Unit is not required to make up any Loan Payment not paid in full by another Governmental Unit or to make up any insufficiency in the NMFA Portion of the Governmental Gross Receipts Tax.

Additional Pledged Loans

The NMFA may make loans from or purchase securities with available funds in the Public Project Revolving Fund. At its option, the NMFA may designate such loans or securities as Additional Pledged Loans (as hereinafter defined), and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds. See "Flow of Funds" below under this caption.

The Governmental Gross Receipts Tax

Generally. Pursuant to Section 7-1-6.38, NMSA 1978, the Public Project Revolving Fund administered by the NMFA is allocated 75% of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. For purposes of this Official Statement, the 75% net receipts which is allocated to the Public Project Revolving Fund is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Indenture, the NMFA Portion of the Governmental Gross Receipts Tax will be paid when received by NMFA to the Trustee and will be accounted for and maintained by the Trustee in the Revenue Fund created under the Indenture within the Public Project Revolving Fund and is available (1) to pay debt service on the Bonds to the extent Loan Payments paid by Governmental Units pursuant to the Agreements are not sufficient to pay debt service when due and (2) to pay debt service on the portions of the Bonds issued to fund Grants. See "Flow of Funds" below under this caption for additional information on the use of moneys in the Revenue Fund. Under the Indenture, payments attributable to Additional Pledged Loans, if any, will be paid by the NMFA to the Trustee prior to each Interest Payment Date. See Appendix B - "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" for certain information concerning the Revenue Fund and allocation of amounts therein to payment of principal of and interest on the Bonds.

Pursuant to Section 7-9-4.3, NMSA 1978, the governmental gross receipts tax is imposed on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State of New Mexico, except school districts and certain health care entities.

Revisions to laws of the State affecting, among other things, tax rates, taxed activities and distributions of governmental gross receipts tax revenues could be adopted in the future by the State legislature. There is no assurance that any future revisions to State laws will not adversely affect, among other things, tax rates, activities now subject to the governmental gross receipts tax or distribution of governmental gross receipts tax revenues to the NMFA. However, the State has pledged to and agreed with holders of any bonds or notes issued under the Act that the State will not limit or alter the rights vested by the Act in the NMFA to fulfill the terms of any agreements made with the holders thereof or in any way impair the rights and remedies of those holders until the bonds or notes together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Governmental gross receipts are defined in Section 7-9-3.2, NMSA 1978, as all receipts of the State or any agency, institution, instrumentality or public subdivision thereof except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services, from:

- the sale of tangible personal property other than water from facilities open to the general public;
- the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public;
- refuse collection, refuse disposal or both;
- sewage services;
- the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State; and
- the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tie-down aircraft or dock boats.

The definition of governmental gross receipts includes receipts from the sale of tangible personal property handled on consignment when sold from facilities open to the general public, but excludes cash discounts taken and allowed, governmental gross receipts tax payable on transactions reportable for the period and any type of time-price differential.

The governmental gross receipts tax was enacted into law and first imposed in 1991. It is imposed at a rate of five percent on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State, except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services. In addition, the governmental gross receipts tax is not imposed on:

- receipts from transactions involving tangible personal property or services on which the gross receipts tax, compensating tax, motor vehicle excise tax, gasoline tax, special fuel tax, special fuel excise tax, oil and gas emergency school tax, resources tax, processors tax, service tax, or the excise tax imposed under Section 66-12-6.1, NMSA 1978, is imposed;
- receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision or on receipts from operation of a cable television system owned or operated by a municipality, because those receipts are subject to the regular gross receipts tax under Section 7-9-13, NMSA 1978;

- receipts from selling livestock and receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, unprocessed agricultural products, hides or pelts;

- receipts from selling tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products, services, or activities sold at, related to or occurring at a minor league baseball stadium on which a stadium surcharge is imposed pursuant to the Minor League Baseball Stadium Funding Act; or

- municipal event center receipts from the sale of tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products or services provided at municipal event centers that provide seating for a minimum of four thousand people.

Deductions from the governmental gross receipts tax include:

- certain receipts from selling tangible personal property to the United States or the State or any governmental unit or subdivision, agency, department or instrumentality of the State;

- receipts from selling tangible personal property to an Indian tribe, nation or pueblo or any governmental subdivision, agency, department or instrumentality thereof for use on Indian reservations or pueblo grants;

- certain receipts from the sale of tangible personal property to a person engaged in the business of manufacturing if the sale is made to a person who delivers a non-taxable transaction certificate to the seller;

- receipts from transactions in interstate commerce;

- receipts from selling tangible personal property, licenses or a service for resale if the sale is made to a person who delivers a nontaxable transaction certificate to the seller;

- certain receipts from selling tangible personal property to entities exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended or renumbered, if the sale is made to an organization that delivers a nontaxable transaction certificate to the seller;

- refunds and allowances made to buyers or amounts written off the books as an uncollectible debt by a person reporting governmental gross receipts tax on an accrual basis;

- certain receipts from selling prosthetic devices if the sale is made to a person who is licensed to practice medicine, osteopathic medicine, dentistry, podiatry, optometry, chiropractic or professional nursing and who delivers a nontaxable transaction certificate to the seller;

- receipts from the sale of prescription drugs; and

- receipts from sales of certain services for resale when the receipts from the resale of the service are not subject to the tax (receipts from sales of services for resale when the receipts from the resale are subject to governmental gross receipts tax remain deductible, as described above).

Collection and Distribution Information. Governmental agencies are treated as taxpayers under the provisions of the Tax Administration Act, Section 7-1-1 *et seq.*, NMSA 1978, and are responsible for paying the governmental gross receipts tax to the New Mexico Taxation and Revenue Department in accordance with the State's Tax Administration Act. Collections are first deposited into a tax administration suspense fund for the purpose of making disbursements for refunds, among other things. On the last day of each month, the balance in the suspense fund is identified by tax source and distributed to the appropriate municipalities or state agencies, including the NMFA. Collection of governmental gross receipts tax is administered by the New Mexico Taxation and Revenue Department. Governmental gross receipts taxes are to be paid on or before the 25th day of the month following the month in which the taxable event occurs.

Presented below is information from the New Mexico Taxation and Revenue Department concerning collections of the governmental gross receipts tax for the fiscal years 2000-01 through 2005-06. There can be no assurance that governmental gross receipts tax collections will continue to grow at historical rates or otherwise.

Governmental Gross Receipts Tax Collections
Fiscal Years 2000-2001 Through 2005-06

	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06[1]
Total Net Receipts	$20,994,555	$20,616,433	$22,908,393	$24,491,159	$24,593,886	$24,666,667
NMFA Portion of the Governmental Gross Receipts Tax	$15,745,916	$15,462,325	$17,181,295	$18,368,369	$18,445,414	$18,500,000

(1) Estimated. Unaudited; cash basis.

Source: State of New Mexico Taxation and Revenue Department.

Presented below is information for the ten top payers of the governmental gross receipts tax for fiscal years 2002-03 through 2004-05. Such information is not publicly available from the State and has instead been obtained from each individual entity. The NMFA does not guarantee the accuracy of any such information.

Top Payers of Governmental Gross Receipts Taxes
Fiscal Years 2002-03 Through 2004-05

	Fiscal Year 2002-03		Fiscal Year 2003-04		Fiscal Year 2004-05	
Entity	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts[2]
Albuquerque Bernalillo County Water Utility Authority[1]			$5,992,345	24.47%	$5,840,450[2]	23.75%
City of Albuquerque[1]	$7,615,404	33.24%	2,393,510	9.77%	3,014,954	12.26%
City of Santa Fe	2,020,181	8.82%	2,335,710	9.54%	2,161,898[2]	8.79%
City of Las Cruces	993,204	4.34%	1,240,693	5.07%	1,273,532	5.18%
University of New Mexico	1,055,148	4.61%	1,111,129	4.54%	1,286,475	5.23%
City of Rio Rancho	718,317	3.14%	807,306	3.30%	876,666	3.56%
City of Farmington	742,103	3.24%	664,164	2.71%	673,920	2.74%
City of Roswell	517,194	2.26%	551,411	2.25%	531,245	2.16%
County of Los Alamos	439,554	1.92%	478,477	1.95%	443,102	1.80%
City of Gallup	323,236	1.41%	347,556	1.42%	396,420	1.61%
Total	$14,424,343	62.97%	$15,922,302	65.01%	$16,498,662	67.08%

(1) Prior to December 2003, the Governmental Gross Receipts Taxes paid by the Albuquerque Bernalillo County Water Utility Authority were paid by the City of Albuquerque.
(2) Unaudited.

Sources: Listed entities.

Flow of Funds

The Indenture creates a Program Fund, a Revenue Fund, a Bond Fund, and a Debt Service Fund with separate accounts for each Governmental Unit receiving a Loan, an Expense Fund, a Rebate Fund and an Agreement Reserve Fund with a separate account, if required, for each Agreement that has a reserve requirement. The repayment obligations of those Governmental Units receiving Additional Pledged Loans who have also entered into Loan Agreements with or issued Securities purchased by the NMFA, payable from the same revenue source, are on a parity with amounts due with respect to such Loan Agreements or Securities.

Flow of Funds Under General Indenture

All Loan Payments and other amounts paid by Governmental Units pursuant to the Loan Agreements and Securities are to be paid directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less an administrative fee of up to 0.25% retained by the NMFA) prior to each Interest Payment Date, and the Trustee is directed to deposit all such payments immediately upon receiving them, in the following accounts and in the following priority:

<u>First</u>: to the related Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit in that Account to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan;

<u>Second</u>: to the related Account, if any, in the Agreement Reserve Fund to the extent necessary to cause the balance in said Account to equal the Agreement Reserve Requirement, if any, of such Account.

On the fifth day preceding a Loan Payment Date (or, if such fifth day is not a Business Day, on the Business Day next preceding such fifth day), if the amount on deposit in any Governmental Unit's Account of the Debt Service Fund is insufficient for payments coming due under the related Loan Agreement or Securities on the next Loan Payment Date, the Trustee is directed to transfer from the related Agreement Reserve Account, if any, to that Governmental Unit's Account of the Debt Service Fund, an amount sufficient, together with amounts in such Debt Service Account, to pay the Principal Component and the Interest Component due under such Loan Agreement or Securities on such Loan Payment Date.

On each Interest Payment Date for the Bonds, the Trustee is directed to transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay the interest on the related Bonds becoming due on such Interest Payment Date and to pay the principal of each related Bond due at maturity or by prior redemption, to the extent amounts are on deposit for such purpose. At least once each year, and more frequently if required pursuant to the provisions of a Supplemental Indenture, the Trustee must determine the amount necessary (1) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (2) to replenish the Governmental Unit's Account in the Agreement Reserve Fund and (3) in certain cases, to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess that the Trustee does not expect to be required for such payments to the related Governmental Unit or to credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement. In certain cases, any excess attributable to the difference in interest rates on the Governmental Unit's Loans and the related Bonds (including the Series 2006B Bonds) will be deposited into the Revenue Fund.

The above provisions, with respect to the flow of funds, do not apply to moneys provided pursuant to the 2000A Loan Agreement. For a description of the flow of funds with respect to the 2000A Loan Agreement, see Appendix B - "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE - THE INDENTURE Application of Loan Payments."

Revenue Fund

During each Bond Fund Year, all Revenues constituting receipts from the NMFA Portion of the Governmental Gross Receipts Tax and principal and interest payments from Additional Pledged Loans are required to be paid by the NMFA to the Trustee prior to each Interest Payment Date and shall be accounted for and maintained by the Trustee in the Revenue Fund. On each Interest Payment Date, the Trustee (except as otherwise provided in a Supplemental Indenture) is directed to transfer from the Revenue Fund (including any amounts in the separate account described in the next paragraph) to the Bond Fund (1) an amount equal to the principal and interest due on such Interest Payment Date on the portion of any Bonds, the proceeds of which were used to make Grants and (2) if the amounts on deposit in the Bond Fund are insufficient for payments coming due with respect to the Bonds on such Interest Payment Date, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal and interest due on the Bonds on such Interest Payment Date.

At the conclusion of each Bond Fund Year, the Trustee is directed to retain in the Revenue Fund, in a separate account to be created therein (to the extent of amounts remaining in the Revenue Fund), the following:

- an amount equal to any deficiency in any account in the Agreement Reserve Fund;
- with respect to Agreements for which no Agreement Reserve Account was created in the Agreement Reserve Fund and a default in the payment of principal or interest under such Agreement has occurred and is continuing, an amount equal to the least of (1) 10% of the proceeds of such Agreement, (2) maximum annual debt service on such Agreement and (3) 1.25 times average annual debt service on such Agreement; and
- with respect to Bonds issued to finance Grants and for which no other debt service reserve fund has been created, an amount equal to the least of (1) five percent of the proceeds of the Bonds issued to finance such Grant, (2) one-half of maximum annual debt service on the Bonds issued to finance such Grants and (3) 0.625 times average annual debt service on the Bonds issued to finance such Grant.

Pursuant to the Indenture, the NMFA is not required to contribute any amounts to fund the retention described in the preceding paragraph other than from amounts on deposit in the Revenue Fund at the end of each Bond Fund Year, and no default under the Indenture occurs solely by reason of any insufficiency of funds remaining in the Revenue Fund to fund such retention.

After making the foregoing deposits, at the conclusion of each Bond Fund Year, and after making the payments required by the Indenture during such Bond Fund Year, the Trustee is directed to transfer the balance on deposit in the Revenue Fund to the NMFA for deposit into the Subordinate Lien Revenue Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Outstanding Subordinate Bonds." After the moneys have been used for the purposes specified in the Subordinated Indenture (as defined below), the NMFA may use any remaining moneys for Public Project Revolving Fund purposes; redemption of Bonds prior to maturity by depositing the same into the Bond Fund; refinancing, refunding, purchasing or advance refunding of any Bonds; or any other lawful purpose.

The balance so transferred to the Subordinate Lien Revenue Fund is no longer pledged to the payment of debt service on the Bonds.

Application of Loan Prepayments

Covenants Applicable to the Series 2006B Bonds

The NMFA covenants pursuant to the Sixty-Sixth Supplemental Indenture, for the purpose of matching, to the extent practicable, (i) the revenues received from Loan Payments received pursuant to Loans reimbursed or originated with proceeds of the Series 2006B Bonds with debt service payable on Series 2006B Bonds, and (ii) the overall debt service requirements on the Outstanding Bonds and the Series 2006B Bonds with revenues received from Loan Payments on all outstanding Loans, to take any one or more of the following actions separately or in combination, within 365 days following the receipt of a Prepayment of a Loan financed with proceeds of Series 2006B Bonds:

For Prepayments funded with proceeds of bonds or another financing transaction the interest on which is intended by the Governmental Unit to be exempt from inclusion in gross income under the Internal Revenue Code (a "Tax-Exempt Financing"), the NMFA must either (1) to the extent practicable, originate one or more new Loans in an aggregate principal amount equal to or greater than the amount of the portion of the Prepayment to be applied, and with a final maturity date and debt service requirements approximating, to the extent practicable, the final maturity date and debt service requirements for the portion of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be used to originate a new Loan or Loans), or (2) call for optional redemption Series 2006B Bonds that are subject to redemption in an aggregate principal amount equal to or greater than the amount of the Prepayment (or a pro rata portion thereof if a portion of the Prepayment is to be applied), and with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be applied). See "THE 2006B BONDS - Redemption - Optional Redemption by the NMFA."

For Prepayments funded from sources other than a Tax-Exempt Financing, the NMFA must elect either of the options described in the previous paragraph, or must defease Series 2006B Bonds, in Authorized Denominations, to their first optional redemption date as described under the caption "THE 2006B BONDS - Redemption - Optional Redemption by the NMFA," in an amount approximating the Prepayment received (or a pro rata portion thereof if a portion of the Prepayment is to be applied). The principal amount and maturity date of Series 2006B Bonds to be defeased must correspond to the principal amount and due date of the Principal Component of such Prepayment.

The NMFA will recalculate the respective Loan Payments due under any Loan Agreement in the case of a partial Prepayment of Loan Payments under such Loan Agreement in a manner consistent with the actions taken.

Historical Prepayments

In the past five fiscal years, the NMFA received Prepayments in the numbers and aggregate principal amounts presented in the following table. Because prepayment of Loans by Governmental Units is optional for the Governmental Unit and because the Loan Payments that Governmental Units may prepay vary greatly in amount, the occurrence and aggregate principal amount of Prepayments in past fiscal years are not an indication of Prepayments to be received by the NMFA in future fiscal years.

Fiscal Year	Number of Prepayments	Aggregate Principal Amount
2000-01	1	$ 5,000
2001-02	4	4,535,000
2002-03	11	6,840,000
2003-04	16	10,303,000
2004-05	14	6,096,000
2005-06[1]	7	2,596,000

(1) Includes payments received by the NMFA from July 1, 2005 through May 1, 2006.

Additional Bonds

Generally

Additional Bonds or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued or incurred, only if certain requirements have been met, including the following:

- The NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are presented below under "Cash Flow Statement."

- All payments required by the Indenture to be made into the Bond Fund must have been made in full.

- The proceeds of the Additional Bonds or other indebtedness, bonds or notes must be used (1) to refund Bonds issued under the Indenture or other obligations of the NMFA (including the funding of necessary reserves and the payment of costs of issuance) or (2) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance).

- No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds or other indebtedness, bonds or notes if (1) the issuance of such Additional Bonds or other indebtedness, bonds or notes otherwise complies with the requirements of the Indenture and (2) such Event of Default will cease to continue upon the issuance of the Additional Bonds or other indebtedness, bonds or notes and the application of the proceeds thereof.

Any of the foregoing requirements may be revised or deleted with written evidence from the Rating Agencies to the effect that such revision or deletion will not result in the rating on the Outstanding Bonds being lowered.

Cash Flow Statement

Pursuant to the Indenture, "Cash Flow Statement" is a certificate of the NMFA:

- setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (1) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (2) the terms of any Loans or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Senior Trust Estate upon or in connection with the filing of such certificate, and (3) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate, the following:

  - the amount of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

  - the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

  - the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding; and

- showing that in each such Bond Fund Year the aggregate of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds, divided by 1.35, plus the aggregate Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds, exceeds 100% of the aggregate of the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding. For purposes of the foregoing, the following assumptions apply:

  - The NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12-month period during the 24 months next preceding the delivery of the Cash Flow Statement;

  - For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above;

  - Loans and Additional Pledged Loans will be assumed to remain in their current category designations throughout the period projected in the Cash Flow Statement; and

- the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding.

For purposes of the Indenture and the Cash Flow Statement, "Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
Category I	100%
Category II	80%
Category III	50%
Category IV	0%

Category I Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the third highest full rating category or higher by the Rating Agencies.

Category II Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agencies.

Category III Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated below the fourth highest full rating category by the Rating Agencies, but excluding Category IV Loans and Additional Pledged Loans.

Category IV Loans and Additional Pledged Loans consist of all Nonperforming Loans and Additional Pledged Loans, Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been replenished in accordance with the related Agreement, and Loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agencies.

Nonperforming Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans under which there have occurred and are continuing events of default (other than a covenant default) or under which delinquencies exists in payments of principal or interest thereunder.

"Rating Agencies" means Moody's Investors Service, Inc., Standard & Poor's and Fitch Ratings or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

Pursuant to the Indenture, at the time of issuance of each series of Bonds, each of the Agreements executed in connection with such issuance is required to be submitted to the Rating Agencies for assignment of a designation or rating or shall be designated in Category IV by the NMFA without submission to the Rating Agencies. In addition, each Additional Pledged Loan is required to be submitted to the Rating Agencies for assignment of a designation or a rating or shall be designated in Category IV by NMFA without submission to the Rating Agencies. At any time (including upon issuance of Additional Bonds), the category assigned to an Agreement or to Additional Pledged Loans may be revised by the Rating Agencies.

Of the Agreements submitted to the Rating Agencies to date, $333.2 million have been designated Category I, $123.9 million have been designated Category II and $6.0 million have been designated Category III. These Agreements do not include any of the Agreements related to Loans for which proceeds of the 2006B Bonds will reimburse the Public Project Revolving Fund.

The formula described in detail above can also be expressed as follows: If A equals Governmental Gross Receipts Tax, B equals Assumed Repayments of Loans and Additional Pledged Loans, and C equals Aggregate Annual Debt Service on all Bonds Outstanding, then Additional Bonds may be issued under the Indenture if:

$$(A \div 1.35) + B > C$$

No Senior Lien Obligation

No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Revenues for payment of the Bonds will be created or incurred without the prior written consent of the Owners of 100% of the Outstanding Bonds.

Outstanding Parity Bonds

The following table presents the series of Public Project Revolving Fund Revenue Bonds that are currently outstanding under the Indenture:

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of May 1, 2006[(1)]
1996A & B	$ 21,125,000	$ 785,000
1997	8,585,000	850,000
1999A	13,135,000	8,665,000
1999B	3,025,000	1,590,000
1999C	2,265,000	1,160,000
1999D	4,875,000	2,955,000
2000A	4,715,000	2,215,000
2000B	7,670,000	1,345,000
2000C	28,850,000	3,160,000
2002A	55,610,000	31,695,000
2003A	39,945,000	34,334,000
2003B	25,370,000	24,785,000
2004A-1	28,410,000	25,785,000
2004A-2	14,990,000	14,110,000
2004B-1	48,135,000	46,240,000
2004B-2	1,405,000	1,335,000
2004C	168,890,000	165,280,000
2005A	19,015,000	19,015,000
2005B	13,500,000	13,500,000
Total Outstanding	$509,515,000	$398,804,000

(1) Bonds mature on June 1.

Source: Western Financial Group, LLC.

See “ANNUAL DEBT SERVICE REQUIREMENTS” for Debt Service Requirements on the outstanding Bonds and aggregate payments under Agreements relating to the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Revenues” for a listing of the Governmental Units with Loan repayment obligations, based on scheduled payments in fiscal year 2005-06 and assuming no prepayment, expected to generate the highest percentages of estimated annual Revenues in fiscal year 2005-06.

The NMFA may issue additional bonds pursuant to the Indenture from time to time to satisfy the needs of governmental entities in the State of New Mexico.

Outstanding Subordinate Lien Bonds

Pursuant to a Subordinated General Indenture of Trust and Pledge between the NMFA and Bank of Albuquerque, N.A., as trustee, dated as of March 1, 2005 (the "Subordinated Indenture"), the NMFA may incur obligations that have a lien on the revenues from the NMFA Portion of the Governmental Gross Receipts Tax and the revenues from Additional Pledged Loans (collectively, the "Subordinate Lien Revenues") that is subordinate to the lien of the Indenture on those revenues.

The Subordinate Lien Revenues are released on June 1 of each year to the Subordinated Indenture where they are applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Subordinated Indenture. After such application, the Subordinate Lien Revenues may be released to the NMFA on June 16 of each year to be used for any lawful purpose.

Pursuant to the Subordinated Indenture, the NMFA has issued various series of bonds (the "Subordinate Lien Bonds"). The official statements for such Subordinate Lien Bonds are available at the Internet site http://www.munios.com. The following table sets forth the various series of Subordinate Lien Bonds and the original principal amount of Subordinate Lien Bonds outstanding as of May 1, 2006.

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of May 1, 2006(1)
2005C(2)	$ 50,395,000	$ 50,395,000
Taxable 2005D(2)	8,660,000	6,115,000
2005E	23,630,000	23,630,000
2005F	21,950,000	21,950,000
2006A	49,545,000	49,545,000
Total	$ 154,180,000	$151,635,000

(1) Bonds mature on June 15.

(2) The Series 2005C and Series 2005D bonds were issued to finance a new Metropolitan Courthouse Complex located in downtown Albuquerque (the "Metro Court"). The FBI is currently investigating allegations of kickbacks in connection with the construction of the Metro Court. The NMFA does not expect that the investigation will impact the repayment of the Series 2005C Bonds or the Series 2005D Bonds.

Source: Western Financial Group, LLC.

The Series 2006B Bonds have a lien on the Subordinate Lien Revenues senior to the lien securing the outstanding Subordinate Lien Bonds. The NMFA may issue additional bonds pursuant to the Subordinated Indenture from time to time to satisfy the financing needs of governmental entities in the State of New Mexico.

Supplemental Indentures and Amendments to Agreements; Rating Agencies; Discretion

Pursuant to the Indenture, the NMFA and the Trustee may, without the consent of or notice to any of the Owners of the Bonds, enter into an indenture or indentures supplemental to the Indenture in order to make certain amendments or changes to the Indenture, including any amendment with the prior written confirmation from the Rating Agencies that such amendment will not result in the rating on the Bonds, following such amendment, being lower than the rating on the Bonds immediately prior to such amendment. In addition, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding may consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. See Appendix B - "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE - SUPPLEMENTAL INDENTURES."

In addition, the NMFA with the consent of the Trustee and the related Governmental Unit may, without the consent of any Owners of the Bonds, amend any Agreement including any amendments with the prior written confirmation from the Rating Agencies that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; or to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix H for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Series 2006B Bonds or the advisability of investing in the Series 2006B Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the NMFA to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2006B Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 2006B Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2006B Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2006B Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Series 2006B Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2006B Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series 2006B Bonds the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2006B Bonds or presentment of such other proof of ownership of the Series 2006B Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2006B Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2006B Bonds in any legal proceeding related to payment of insured amounts on the Series 2006B Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2006B Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2006B Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2006B Bonds. MBIA does not guaranty the market price of the Series 2006B Bonds nor does it guaranty that the ratings on the Series 2006B Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of $11.0 billion (unaudited), total liabilities of $7.2 billion (unaudited), and total capital and surplus of $3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2006 MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.5 billion (unaudited), and total capital and surplus of $3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2006 and for the three month period ended March 31, 2006 and March 31, 2005 included in the Quarterly Report on Form l0-Q of the Company for the period ended March 31, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2006B Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

THE PLAN OF FINANCING

Purposes of the Series 2006B Bonds

Proceeds of the Series 2006B Bonds will be used by the NMFA to (i) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain Governmental Units for the purpose of funding public projects for such Governmental Units; and (ii) pay costs incurred in connection with the issuance of the Series 2006B Bonds. See Appendix G for a list of the Governmental Units and the outstanding balances of the Loans financed with the Bonds, including the Series 2006B Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2006B Bonds are presented in the following table.

Estimated Sources and Uses of Funds

SOURCES:	
Par Amount	$38,260,000.00
Net Reoffering Premium	1,274,329.00
Agreement Reserve Accounts[(1)]	2,355,810.40
TOTAL SOURCES:	$41,890,139.40
USES:	
Reimbursement of Public Project Revolving Fund[(2)]	$38,959,812.00
Agreement Reserve Accounts[(1)]	2,355,810.40
Costs of Issuance[(3)]	574,517.00
TOTAL USES:	$41,890,139.40

(1) Represents the aggregate amount on deposit in Agreement Reserve Accounts for Loans originated with moneys from the Public Project Revolving Fund, and reimbursed with proceeds of the Series 2006B Bonds.

(2) Represents reimbursement of amounts used to make certain Loans, including amounts loaned by the NMFA to fund Agreement Reserve Accounts in connection with Loans for which Loan Agreement Reserve Accounts were required by the NMFA.

(3) Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, trustee fees, underwriter's discount, bond insurance premium (if bond insurance is acquired), and other miscellaneous costs. See "Underwriting."

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ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2006B Bonds and all currently Outstanding Parity Bonds for each fiscal year through their respective final maturity dates.

Debt Service Requirements for the Bonds

	Series 2006B Bonds				
Fiscal Year	Principal[1]	Interest[2] [3]	Debt Service on Series B Bonds[3]	Debt Service on Parity Bonds[3] [4]	Total Debt Service on Parity and Series 2006B Bonds
2006	-	-	-	$ 42,474,864	$ 42,474,864
2007	$ 655,000	$ 1,673,734	$ 2,328,734	41,603,267	43,932,002
2008	1,195,000	1,777,825	2,972,825	40,114,812	43,087,637
2009	1,360,000	1,730,025	3,090,025	40,599,641	43,689,666
2010	1,415,000	1,675,625	3,090,625	40,415,204	43,505,829
2011	1,810,000	1,619,025	3,429,025	39,830,520	43,259,545
2012	1,870,000	1,546,625	3,416,625	40,482,431	43,899,056
2013	1,955,000	1,467,150	3,422,150	39,210,223	42,632,373
2014	1,735,000	1,384,063	3,119,063	36,566,264	39,685,326
2015	1,825,000	1,297,313	3,122,313	35,464,698	38,587,011
2016	1,710,000	1,206,063	2,916,063	32,476,580	35,392,643
2017	1,560,000	1,120,563	2,680,563	22,006,488	24,687,050
2018	1,645,000	1,042,563	2,687,563	20,350,393	23,037,955
2019	1,730,000	960,313	2,690,313	18,240,174	20,930,486
2020	1,820,000	873,813	2,693,813	16,481,036	19,174,849
2021	1,915,000	782,813	2,697,813	15,348,700	18,046,512
2022	1,180,000	687,063	1,867,063	14,540,743	16,407,805
2023	1,245,000	628,063	1,873,063	10,585,683	12,458,746
2024	1,310,000	565,813	1,875,813	8,653,565	10,529,377
2025	1,375,000	505,488	1,880,488	3,003,323	4,883,810
2026	1,440,000	442,100	1,882,100	2,380,244	4,262,344
2027	700,000	375,500	1,075,500	1,994,093	3,069,593
2028	610,000	340,500	950,500	791,068	1,741,568
2029	640,000	310,000	950,000	795,513	1,745,513
2030	675,000	278,000	953,000	594,216	1,547,216
2031	710,000	244,250	954,250	596,613	1,550,863
2032	750,000	208,750	958,750	564,708	1,523,458
2033	790,000	171,250	961,250	42,050	1,003,300
2034	835,000	131,750	966,750		966,750
2035	875,000	90,000	965,000		965,000
2036	925,000	46,250	971,250		971,250
Total	$38,260,000	$25,182,284	$63,442,284	$566,207,112	$629,649,396

(1) Payable on June 1 of each year. Includes mandatory sinking fund payments.
(2) Payable on June 1 and December 1 of each year, commencing December 1, 2006.
(3) Figures are rounded to the nearest whole dollar; figures may not add due to rounding.
(4) Includes principal and interest.

Source: Western Financial Group, LLC.

The following table shows estimated available Revenues pledged to the payment of the Series 2006B Bonds, total debt service requirements for the Series 2006B Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on fiscal year 2004-05 collections of the NMFA Portion of the Governmental Gross Receipts Tax and scheduled payments under the

Agreements and Additional Pledged Loans, and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Revenues - The Governmental Gross Receipts Tax,” “- The Agreements and the Agreement Pledged Revenues” and “-Additional Pledged Loans” for descriptions of the Revenues presented in the table under the headings “Governmental Gross Receipts Tax” and “Aggregate Pledged Borrower Payments.”

Estimated Revenues, Annual Debt Service Requirements and Projected Coverage Ratios

Fiscal Year	Governmental Gross Receipts Tax [1]	Aggregate Pledged Borrower Payments[2] [3]	Estimated Total Revenues[3]	Total Debt Service for 2006B Bonds Plus Parity Bonds	Estimated Annual Coverage Ratios[4]
2006	$18,445,414	$46,717,517	$65,162,931	$42,474,864	1.53x
2007	18,445,414	46,588,369	65,033,783	43,932,002	1.48x
2008	18,445,414	44,385,175	62,830,589	43,087,637	1.46x
2009	18,445,414	45,452,158	63,897,572	43,689,666	1.46x
2010	18,445,414	46,292,867	64,738,281	43,505,829	1.49x
2011	18,445,414	46,221,998	64,667,412	43,259,545	1.49x
2012	18,445,414	46,080,268	64,525,682	43,899,056	1.47x
2013	18,445,414	45,199,368	63,644,782	42,632,373	1.49x
2014	18,445,414	41,969,633	60,415,047	39,685,326	1.52x
2015	18,445,414	41,133,187	59,578,601	38,587,011	1.54x
2016	18,445,414	36,636,572	55,081,986	35,392,643	1.56x
2017	18,445,414	27,518,511	45,963,925	24,687,050	1.86x
2018	18,445,414	25,344,086	43,789,500	23,037,955	1.90x
2019	18,445,414	23,038,684	41,484,098	20,930,486	1.98x
2020	18,445,414	21,767,352	40,212,766	19,174,849	2.10x
2021	18,445,414	19,126,936	37,572,350	18,046,512	2.08x
2022	18,445,414	18,630,524	37,075,938	16,407,805	2.26x
2023	18,445,414	13,352,295	31,797,709	12,458,746	2.55x
2024	18,445,414	11,342,799	29,788,213	10,529,377	2.83x
2025	18,445,414	5,371,638	23,817,052	4,883,810	4.88x
2026	18,445,414	4,506,689	22,952,103	4,262,344	5.38x
2027	18,445,414	3,203,032	21,648,446	3,069,593	7.05x
2028	18,445,414	1,783,851	20,229,265	1,741,568	11.62x
2029	18,445,414	1,787,344	20,232,758	1,745,513	11.59x
2030	18,445,414	1,579,578	20,024,992	1,547,216	12.94x
2031	18,445,414	1,582,856	20,028,270	1,550,863	12.91x
2032	18,445,414	1,543,053	19,988,467	1,523,458	13.12x
2033	18,445,414	1,012,577	19,457,991	1,003,300	19.39x
2034	18,445,414	968,329	19,413,743	966,750	20.08x
2035	18,445,414	970,562	19,415,976	965,500	20.12x
2036	18,445,414	972,896	19,418,310	971,250	19.99x
	$571,807,834	$672,080,704	$1,243,888,538	$629,649,396	

(1) Future collections of the NMFA Portion of the Governmental Gross Receipts Tax are based on fiscal year 2004-05 collections.
(2) Include scheduled payments under Agreements and outstanding Additional Pledged Loans.
(3) Amounts are rounded to the nearest dollar.
(4) Calculated using the fiscal year 2005-06 NMFA Portion of the Governmental Gross Receipts Tax assuming that no Additional Bonds will be issued under the Indenture, and are subject to change.

Sources: NMFA and Western Financial Group LLC.

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 31 persons, including an Executive Director. The Executive Director directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- to sue or be sued;

- to adopt and alter an official seal;

- to make and alter bylaws for its organization and internal management and to adopt, subject to the review and approval of the NMFA oversight committee, such rules as are necessary and appropriate to implement the provisions of the Act;

- to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the Act;

- to acquire, construct, hold, improve, grant or accept mortgages of, sell, lease, convey or dispose of real and personal property for its public purposes;

- to acquire, construct or improve real property, buildings and facilities for lease and to pledge rentals and other income received from such leases to the payment of bonds;

- to make loans and leases and to purchase securities and to contract to make loans and leases and to purchase securities;

- to make grants from the Water and Wastewater Project Grant Fund and Local Government Planning Fund to qualified entities to finance public projects;

- to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;

- to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA;

- to accept, administer, hold and use all funds made available to the NMFA from any sources;

- to borrow money and to issue bonds and provide for the rights of holders of the bonds;

- to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;

- to invest and reinvest its funds and to take and hold property as security for the investment of such funds;

- to employ attorneys, accountants, underwriters, financial advisers, trustees, paying agents, architects, engineers, contractors and such other advisers, consultants and agents as may be necessary and to fix and pay their compensation;

- to apply for and accept gifts or grants of property, funds, services or aid in any form from the United States, any unit of government or any person and to comply, subject to the provisions of the Act, with the terms and conditions of the gifts or grants;

- to maintain an office at any place in the state it may determine;

- subject to any agreement with bondholders to: (1) renegotiate any loan, lease or agreement; (2) consent to any modification of the terms of any loan, lease or agreement; and, (3) purchase bonds, which may upon purchase be canceled; and

- to do any and all things necessary or convenient to carry out its purposes and exercise the powers given and granted in the Act.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members, seven of whom are *ex officio* members designated in the Act and five of whom are appointed by the Governor with the advice and consent of the State senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the state. The seven *ex officio* members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the governor and the appointed members serve four-year terms. Vacancies are filled by appointment for the remainder of any unexpired term. Any member is eligible for reappointment.

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it:

- meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the Act and to review and approve regulations proposed for adoption;

- monitors and provides assistance and advice on the public project financing program of the NMFA;

- oversees and monitors State and local government capital planning and financing and takes testimony from State and local officials on State and local capital needs;

- provides advice and assistance to the NMFA and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects;

- undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and

- reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the "Legislature"), and makes available the report and proposed legislation on or before December 15 each year.

The Governor's Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003, to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. The Executive Order designates the Executive Director and Chairman of the NMFA as members of the Governor's Finance Council. The NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor's Finance Council.

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Governing Body and Key Staff Members

Current members of the NMFA, and their respective occupations and term expiration dates, are presented below:

Name	Occupation	Term Expires
Gary Bland [(1)]	State Investment Officer, State Investment Council	not applicable
John Carey [(2)]	President and CEO, Association of Commerce and Industry	01/01/08
Gustavo Cordova [(1)]	Executive Director, New Mexico Association of Counties	not applicable
Ron Curry [(1)]	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance [(2) (3)] (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	12/31/09
William Fulginiti [(1)] (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia [(2)]	President, Garcia Honda Albuquerque, New Mexico	01/01/09
Rick Homans [(1)]	Secretary, Economic Development Department, State of New Mexico	not applicable
Katherine B. Miller [(1)]	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
James L. McDonough [(2) (4)]	Vice President for Business and Finance, New Mexico State University	12/31/07
Joanna Prukop [(1)] (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves [(2)] (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	01/01/08

(1) *Ex officio* member.
(2) Appointed by the Governor of the State.
(3) Pending confirmation by the New Mexico State Senate. Confirmation is expected to be considered during the next session of the State Legislature which commences in January, 2007.
(4) Submitted resignation effective July 1, 2006. Pursuant to Section 6-21-4 NMSA 1978, the Governor will appoint a chief financial officer of a State higher educational institution to fill the vacancy on the NMFA Board.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2006B Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development consulting, and land development process consulting. He graduated from the University of Colorado at Boulder with a Master's Degree in Public Administration. In addition, Mr. Sisneros served as City Manager of Santa Fe, New Mexico; Town Manager of Taos, New Mexico; Assistant City Manager of Boulder, Colorado; and Administrative Assistant in Englewood, Colorado. In Santa Fe, Mr. Sisneros served on the Executive Board of St. Vincent Hospital, as President of the

Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., on the Board of Directors of Open Hands and of New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

Jerome L. Trojan, Chief Operating Officer. Mr. Trojan joined the NMFA in January 2005. He has extensive experience in local government, having served as Assistant City Manager for the Cities of Las Cruces, New Mexico and Mountlake Terrace, Washington, Administrative Services Director for Santa Fe, New Mexico, Finance Director for Las Cruces, New Mexico, and Finance Director for Bay City, Michigan. In addition, Mr. Trojan has experience in higher education, having held the position of the Vice Chancellor of Administration at the University of Alaska-Fairbanks and served as an Accountant at Delta Community College in Bay City, Michigan. A Certified Public Accountant, he graduated from Central Michigan University with a Master of Business Administration with a concentration in Finance and from Western Michigan University with a Bachelor of Business Administration, with a major in Accounting and a minor in Economics. Mr. Trojan has taken the required courses for a Doctorate in International Management from Nova Southeastern University. While at the City of Las Cruces, Mr. Trojan led the City's effort to reduce electric utility costs to the community. He is active in the International City Managers Association and was instrumental in the establishment of the New Mexico Finance Officers Association.

Joseph Gosline, *Chief Financial Officer*. Mr. Gosline joined the NMFA on October 24, 2005. Mr. Gosline has 15 years of experience in financial management. He previously worked with the NMFA for 5 1/2 years, leaving to work for one year at a financial company that primarily advises state and public agencies on housing bonds. His responsibilities include developing, recommending and implementing NMFA internal financial management programs; managing and supervising day-to-day administrative operations related to accounting; establishing control and procedures for account management, delinquency limits; and overseeing the preparation of tax reports annually, quarterly and monthly as required. Mr. Gosline holds a B.B.A. in accounting and a Master of Business Administration in finance from the College of Santa Fe.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 17 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 micro loans to $175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for $203.5 million in financings for the NMFA. Mr. Turner earned from New Mexico State University a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration.

John Duff, Chief Investment Officer. Mr. Duff joined the NMFA in the newly–created position of Chief Investment Officer on February 13, 2006. Mr. Duff has more than 20 years experience in investment management, financial management, and public accounting experience. He has held positions as COO and CFO of publicly held corporations, and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. As Chief Investment Officer, Mr. Duff is responsible for management of the NMFA's investment portfolio. Mr. Duff has a B.A. degree in economics from Oberlin College and an M.B.A. from Miami University in accounting and finance.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

The Public Project Revolving Fund Program

General

The Act created the Public Project Revolving Fund (PPRF) Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of $1 million per project require specific legislative authorization. As of March 31, 2006, the NMFA had made 504 PPRF loans totaling 764,279,515.55 million. To implement the PPRF Program, the NMFA has been granted the following specific powers:

- to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;
- to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (1) a loan to a qualified entity, (2) a purchase or sale of securities individually or on a pooled basis, or (3) the performance of its duties and execution of any of its powers under the Act;
- to purchase, hold or sell securities at prices and in a manner the NMFA considers advisable, giving due consideration to the financial capability of the qualified entity, and sell securities acquired or held by it at prices without relation to cost and in a manner the NMFA considers advisable;
- to prescribe the form of application or procedure required of a qualified entity for a loan or purchase of its securities, fix the terms and conditions of the loan or purchase and enter into agreements with qualified entities with respect to loans or purchases;
- to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities, whether or not the loan is made or the securities purchased;
- to fix and establish terms and provisions with respect to: (1) a purchase of securities by the NMFA, including date and maturities of the securities; (2) redemption or payment before maturity; and (3) any other matters that in connection with the purchase are necessary, desirable or advisable in the judgment of the NMFA;
- to the extent permitted under its contracts with the holders of bonds of the NMFA, consent to modification of the rate of interest, time and payment of installment of principal or interest, security or any other term of a bond, contract or agreement of any kind to which the NMFA is a party;
- in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and
- to acquire fee simple, leasehold, mortgagor's or mortgagee's interests in real and personal property and to sell, mortgage, convey or lease that property for NMFA purposes; and
- in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

The 2006 Legislature authorized the NMFA to use the Public Project Revolving Fund to purchase bonds used to capitalize programs authorized by law and administered by the NMFA and to finance projects of non-profit or other support organizations affiliated with public institutions of higher education located in the state. The recipients of such loans originated with moneys in the PPRF will be required to repay the borrowed funds.

The Senior Lien Program

The NMFA is authorized to issue bonds pursuant to the Indenture to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. In connection with the issuance of Senior Bonds, the NMFA may enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Senior Bonds for projects. The NMFA has issued several series of its Senior Bonds since July 1995. The proceeds of such bonds were used to make loans and grants (or to reimburse the NMFA for making loans and grants) to numerous Governmental Units, including local governmental entities of the State, an Indian Nation, and departments and agencies of State government, for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds" for a list of series of outstanding Senior Bonds and a description of the revenues securing them.

The Subordinate Lien Program

The NMFA also is authorized to issue Bonds pursuant to the Subordinated Indenture to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. As in the senior lien program, the NMFA may, in connection with the issuance of Subordinate Lien Bonds, enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate Lien Bonds for projects. The NMFA has issued four previous series of Subordinate Lien Bonds. The proceeds of such Subordinate Lien Bonds were used to make loans for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Lien Debt" for a description of each series of outstanding Subordinate Lien Bonds and the revenues securing them.

Other Programs and Projects

The NMFA participates in or administers several other programs designed to provide financing to local governmental entities and state agencies for public projects. These programs and projects are described in Appendix F.

LITIGATION

To the knowledge of the NMFA, there is no controversy or litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2006B Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Revenues for the payment of the debt service on the Series 2006B Bonds or in any way contesting or affecting the validity or enforceability of the Series 2006B Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA and the office of the New Mexico Attorney General will deliver no-litigation certificates as to the foregoing prior to the issuance of the Series 2006B Bonds.

UNDERWRITING

RBC Capital Markets is the trade name under which RBC Dain Rauscher Inc. will be performing underwriting services in connection with the Series 2006B Bonds. RBC Capital Markets, Cabrera Capital Markets, Inc. and Ramirez & Co., Inc. (the "Underwriters") have agreed to purchase the Series 2006B Bonds from the NMFA pursuant to a Bond Purchase Agreement dated May 25, 2006 (the "Bond Purchase Agreement"), at an aggregate price of $39,325,812 (being the aggregate principal amount of the Series 2006B Bonds plus a net reoffering premium of $1,274,329 and less underwriter's discount of $208,517). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2006B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the Series 2006B Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

TAX MATTERS

Federal Income Tax

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2006B Bonds. The NMFA and the Governmental Units whose loans are being financed by the issuance of the Series 2006B Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2006B Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2006B Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and such Governmental Units with such requirements and restrictions in rendering its opinion regarding the tax-exempt status of interest on the Series 2006B Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2006B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the Series 2006B Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006B Bonds may otherwise affect a Bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and the Bondholder's other items of income or deduction. Said Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006B Bonds.

Original Issue Premium. Certain of the Series 2006B Bonds are offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2006B Bond through reductions in the holder's tax basis for the Series 2006B Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Series 2006B Bond rather than creating a deductible expense or loss. Series 2006B Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the Series 2006B Bonds are offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. Original issue discount on a Series 2006B Bond accrues as tax-exempt interest periodically over the term of the Series 2006B Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2006B Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2006B Bondholders should consult their tax advisors for an explanation of the accrual rules.

State of New Mexico Income Tax

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, under laws of the State of New Mexico as currently enacted and construed, interest on the Series 2006B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2006B Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions in substantially the forms included in Appendix D. Certain legal matters will be certified for the NMFA by the Office of the Attorney General for the State of New Mexico and be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, and for the Underwriters by Lewis and Roca LLP, Phoenix, Arizona. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA contained in this Official Statement.

FINANCIAL ADVISOR

The NMFA has retained Western Financial Group, LLC, as financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2006B Bonds. Western Financial Group, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

FINANCIAL STATEMENTS

The combined financial statements of the NMFA for the year ended June 30, 2005, included in Appendix A of this Official Statement, have been audited by Meyners & Company, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated December 9, 2005. Meyners & Company, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement. See "INTRODUCTION – Professionals Involved in the Offering."

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the NMFA's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the NMFA will execute and deliver a Continuing Disclosure Undertaking in connection with the issuance of the 2006B Bonds, pursuant to which it will agree to provide the following information:

- to each nationally recognized municipal securities information repository ("NRMSIR") by no later than March 31 of each fiscal year, or the next succeeding business day if March 31 is not a business day (and to the Trustee and to each holder of the 2006B Bonds who requests such information):

    - annual financial information and operating data concerning the NMFA Portion of the Governmental Gross Receipts Tax Revenues, such information to be of the type presented in the table captioned "Governmental Gross Receipts Tax Collections - Fiscal Years 2000-2001 Through 2005-2006" under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Revenues - The Governmental Gross Receipts Tax" in the Official Statement;

    - with respect to any Governmental Unit expected by the NMFA, on the last business day that is at least 45 days prior to the date specified for providing such information to each NRMSIR, to have Loan repayment obligations in the then-current fiscal year constituting more than 20% of the estimated Revenues for the then-current fiscal year (the “20% Test”), and each additional Governmental Unit designated by the NMFA by such day, information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement Pledged Revenues, or such shorter period for which such information is available; and

    - audited financial statements for the NMFA, any Governmental Unit meeting the 20% Test and each additional Governmental Unit designated by the NMFA (or, if audited financial statements are not available by March 31 of each fiscal year, or the next succeeding business day if March 31 is not a business day, unaudited financial statements);

- in a timely manner to the Municipal Securities Rulemaking Board (“MSRB”) and to each State information depository, if any, notice of a failure to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking; and

- in a timely manner to the MSRB and to a State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the 2006B Bonds, if material:

    - principal and interest payment delinquencies;

    - non-payment related defaults;

    - unscheduled draws on debt service reserves reflecting financial difficulties;

    - unscheduled draws on credit enhancements reflecting financial difficulties;

    - substitution of credit or liquidity providers, or their failure to perform;

    - adverse tax opinions or events affecting the tax-exempt status of the 2006B Bonds;

    - modification of rights of security holders;

    - bond calls;

    - defeasances;

    - release, substitution, or sale of property securing repayment of the 2006B Bonds; and

    - rating changes.

The NMFA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA, such other event is material with respect to the 2006B Bonds. However, the NMFA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The NMFA will provide its annual report to Digital Assurance Certification, L.L.C. (“DAC”), as dissemination agent, to file with each NRMSIR and with the State information depository, if any. The NMFA will provide the notices of material events to DAC to file with each NRMSIR or the MSRB, and with the State information repository, if any.

The NMFA reserves the right to modify from time to time the Continuing Disclosure Undertaking, including the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA; provided that, the NMFA has agreed that any such modification will be done in a manner consistent with the Rule. The NMFA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the 2006B Bonds and will be enforceable by the Owners; provided that the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA's obligations, and any failure by the NMFA to comply with the provisions of the undertaking will not be an event of default with respect to the 2006B Bonds.

Continuing disclosure undertaking previously entered into by the NMFA called for it to file certain annual financial information and operating data and audited financial statements for the NMFA and any Governmental Unit meeting the objective criteria described in those undertakings with each NRMSIR no later than 270 days after the end of each fiscal year. In September 2004, the NMFA discovered that for fiscal years 2000-01 and 2001-02 only the audited financial statements of the NMFA were filed with the NRMSIRs. For fiscal year 2002-03 annual financial information and operating data and audited financial statements for the NMFA were filed with each NRMSIR, but the audited financial statements for the Governmental Units meeting the objective criteria were not filed. On October 1, 2004, NMFA notified the MSRB of its failure to file the annual financial information and operating data and the audited financial statements for the Governmental Units meeting the objective criteria. The NMFA filed annual financial information and operating data and the audited financial statements for the City of Albuquerque, New Mexico and the Energy, Minerals and Natural Resources Department of the State of New Mexico on October 4, 2004. NMFA believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings.

No Governmental Unit currently is expected to have annual Loan repayment obligations exceeding 20% of estimated annual Revenues in the first full year following issuance of the 2006B Bonds.

RATINGS

Moody’s Investor’s Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Group (“S&P”) and Fitch Ratings (“Fitch”) have assigned municipal bond ratings of “Aaa”, “AAA” and “AAA”, respectively, to the Series 2006B Bonds with the understanding that upon delivery of the Series 2006B Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2006B Bonds will be issued by MBIA Insurance Corporation. In addition, Moody’s, S&P and Fitch have assigned underlying (i.e., without regard to a municipal bond insurance policy) long-term ratings of “Aa2”, “A” and “AA” respectively, to the Series 2006B Bonds. An explanation of the significance of such ratings may be obtained from Moody’s, S&P and Fitch.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2006B Bonds and there is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings given to the Series 2006B Bonds may have an adverse effect on the market price of the Series 2006B Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2006B Bonds any proposed revision or withdrawal of the ratings on the Series 2006B Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information in this Official Statement is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained in this Official Statement do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated as such, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2006B Bonds.

APPROVAL BY THE NMFA

The Preliminary Official Statement has been deemed "final" as of its date under the meaning of the Rule, but is subject to revision, amendment and completion as a Final Official Statement. Its distribution and use by the Underwriters have been duly authorized and approved by the NMFA, and the Final Official Statement will be executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Chief Executive Officer.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance,
Chairman of the Board of Directors

By /s/ William C. Sisneros
William C. Sisneros,
Chief Executive Officer

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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NEW MEXICO FINANCE AUTHORITY

Financial Statements
for the Year Ended
June 30, 2005,
and Independent
Auditors' Report

Page

Year Ended June 30, 2005

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
John A. Carey, Member
Gustavo Cordova, Member
Ron Curry, Member
Ed Garcia, Member
James Jimenez, Member
Rick Homans, Member
James L. McDonough, Member
Joanna Prukop, Member
Craig Reeves, Member

Executive Director
William C. Sisneros

Chief Operations Officer
Jerome Trojan

Chief Financial Officer
Joseph Gosline

MEYNERS +
COMPANY, LLC
*Certified Public Accountants/
Consultants to Business*

500 Marquette NW, Suite 800
Albuquerque, New Mexico 87102
P 505/842-8290
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*An Independent Member of the
BDO Seidman Alliance*

INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2005, and the respective changes in the financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general and special revenue funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Meyners + Company, LLC

December 9, 2005

The New Mexico Finance Authority's (Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

Financial Highlights

- The Authority's governmental net assets decreased by $17,559,070 in fiscal year 2005 from 2004.
- The Authority's program revenues decreased by $2,066,918 in fiscal year 2005 from 2004.
- The total cost of all Authority programs was $97,863,092, an increase of $8,865,382 over 2004.

Authority Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the Authority and the Authority provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2005, the PPRF program made approximately 58 loans totaling approximately $187.6 million, compared to 90 loans totaling approximately $115.2 million in FY2004.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2005, the DWRLF made five loans totaling $12.6 million compared to one loan totaling $1.8 million in FY2004. The FY2005 binding commitments numbered four, approximating $20.5 million, compared to seven totaling approximately $31.5 million in FY2004.

Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2005, the Authority Board has approved 14 loans totaling $7.75 million.

During FY2005, the Authority issued $237.9 billion in bonds to provide reimbursement to the Public Projects Revolving Loan Fund, refund the outstanding metro Court Bonds and provide financing for the UNM Health Sciences Center.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY2005, 30 grants closed for a total of $11,457,000, compared to 40 grants totaling $10,730,017 in FY2004.

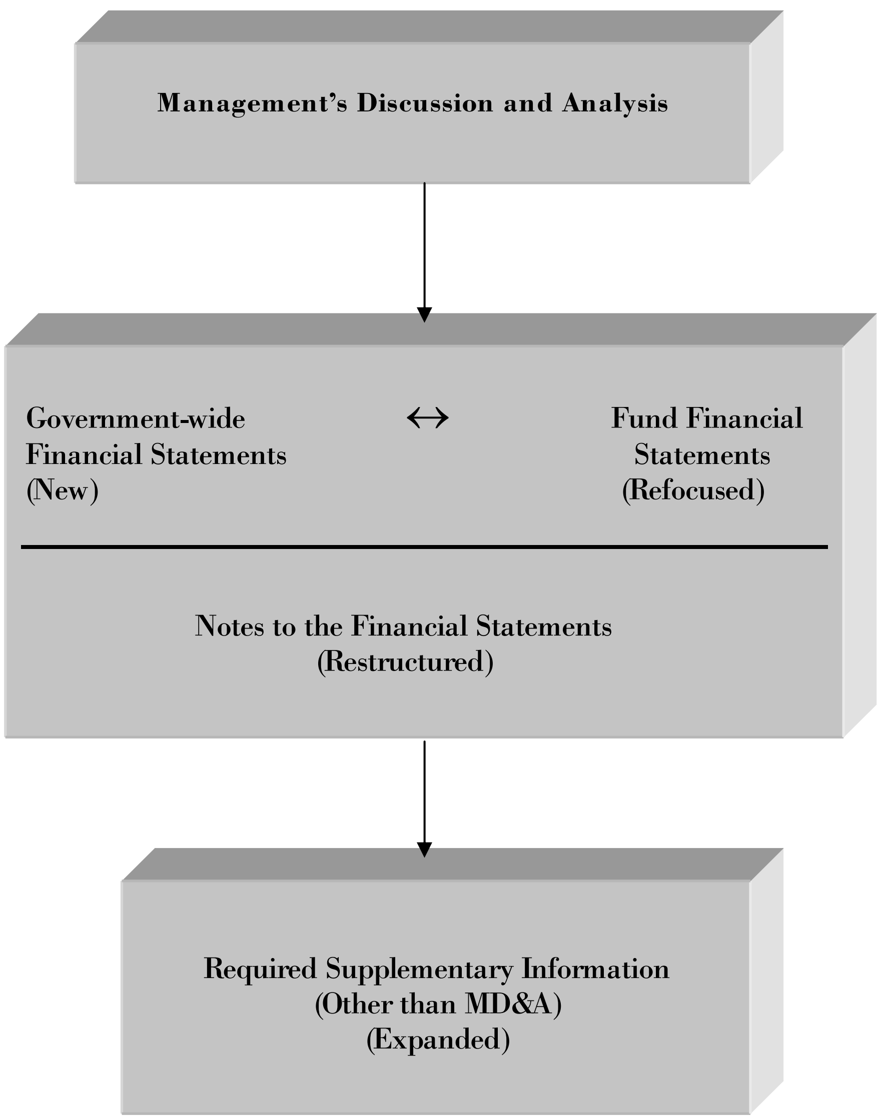
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Using This Annual Report

With the implementation of GASB #34, the presentation of the financial statements is significantly different from the previous general-purpose financial statements. The primary focus in State government's financial statements for the last twenty years or so, (summarized fund type information) has been discarded with implementation of GASB #34. The new focus is on both the Authority (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the Authority is one of several agencies within the State of New Mexico Government, the primary Government focus in this financial report is the Authority and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:

Using This Annual Report - continued



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Authority does not own a material interest in any infrastructure assets and, therefore, is not required to implement this portion of GASB #34.

Government-Wide Financial Statements - continued

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities - All of the Authority's stand-alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the Authority are the Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Behavioral Health Clinic Financing, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capital Improvement Financing and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities - The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the GRIP Administrative Fund and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

- Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the costs of providing services including capital costs be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The fund classified as Proprietary or Enterprise funds are the General Operating Fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund and the Behavioral Health Clinic Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis Of The Authority As A Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2005. FY2005 net assets for Governmental Activities and Business-type Activities were ($60,978,165) and $159,955,266, respectively. Total Authority net assets for fiscal year 2005 are $101,472,809. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2005	2004	**2005**	2004	**2005**	2004
Current and other assets	$	**75,171,015**	122,103,991	**248,080,457**	165,606,355	**323,251,472**	287,710,346
Capital and non-current assets		**4,047,008**	5,465,722	**476,415,138**	316,295,820	**480,462,146**	321,761,542
Total assets		**79,218,023**	127,569,713	**724,495,595**	481,902,175	**803,713,618**	609,471,888
Current liabilities		**5,267,723**	12,212,900	**101,828,939**	105,575,960	**107,096,662**	117,788,860
Long-term liabilities		**134,928,465**	136,745,673	**459,805,324**	236,833,363	**594,733,789**	373,579,036
Total liabilities		**140,196,188**	148,958,573	**561,634,263**	342,409,323	**701,830,451**	491,367,896
Net Assets:							
Invested in capital assets		**118,808**	23,010	**140,719**	46,023	**259,527**	69,033
Restricted		**(61,096,973)**	(21,411,870)	**159,955,266**	138,667,438	**98,858,293**	117,255,568
Unrestricted		**-**	-	**2,354,989**	779,391	**2,354,989**	779,391
Total net assets		**(60,978,165)**	(21,388,860)	**162,861,332**	139,492,852	**101,883,167**	118,103,992
Total liabilities and net assets	$	**79,218,023**	127,569,713	**724,495,595**	481,902,175	**803,713,618**	609,471,888

Changes in Net Assets: The Authority's change in net assets for fiscal year 2005 was a decrease of $16,631,183 (Table A-2). A significant portion, twenty-eight percent (28%), of the Authority's revenue comes from Tax Revenue. Four percent (4%) comes from other operating grants and contributions, and seven percent (7%) from interest and investment income. Thirty-five percent (35%) comes from state general fund appropriations, and charges for services and other revenue comprise twenty-six percent (26%) of total revenue.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	**2005**	2004	**2005**	2004
Revenues:						
Program	**1,143,328**	3,561,199	**22,779,749**	17,171,546	**23,923,077**	20,732,745
General	**28,942,690**	19,532,231	**23,119,623**	19,549,618	**52,062,313**	39,081,849
Total revenues	**30,086,018**	23,093,430	**45,899,372**	36,721,164	**75,985,390**	59,814,594
Expenses	**72,279,123**	71,484,073	**24,656,082**	17,513,637	**96,935,205**	88,997,710
Net revenues (loss) before transfers and reversions	**(42,193,105)**	(48,390,643)	**21,243,290**	19,207,527	**(20,949,815)**	(29,183,116)
Transfers and reversions	**1,588,800**	(999,821)	**(1,588,800)**	999,821	**-**	-
(Decrease) increase in net assets	**(40,604,305)**	(49,390,464)	**19,654,490**	20,207,348	**(20,949,815)**	(29,183,116)
Net assets, beginning of year	**(20,373,860)**	28,001,604	**143,206,842**	119,285,504	**122,832,982**	147,287,108
Net assets, end of year $	**(60,978,165)**	(21,388,860)	**162,861,332**	139,492,852	**101,883,167**	118,103,992

Governmental-Type Activities

The Authority's total expenditures for governmental-type activities during the fiscal year were $73,207,010. The highest area of expenditures, $22,061,406, thirty percent (30%), was in the area of Debt Service.

The second highest area of expenditures within the Authority is in the category of Grant Expenses.

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $23,119,623. The majority of business-type expenditures, $16,715,207, seventy-three percent (73%), was in the area of Debt Service. Within the operating cost category, salaries and benefits comprised seven percent (7%) of total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were twenty percent (20%) of total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2005, the Authority had invested a total of $118,808 net of depreciation in business-type activities and $140,718 in fixed assets for government-type activities. During FY2005, capital outlay expenditures totaled $119,209. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

GASB #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The Authority does not own any infrastructure assets.

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2005, the total amount outstanding was $570 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year ended June 30, 2005.

Economic Factors and Next Year's Budgets and Rates

The FY2005 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

- General operations of the Authority, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board, funded from the Water Project Fund:
- Administration of the Water Trust Board, funded from the Emergency Drought Relief Declarations;
- Water and Wastewater Grant Fund (W/WWGF) program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF;
- The Economic Development Fund, funded from administration fees and cigarette tax revenue.

The Authority's primary operating budget for FY2005 was $4,117,898, compared to the FY2004 budget of $2,699,446, a 52.5%increase.

Contacting the Authority's Financial Management

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

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
ASSETS				
Cash and cash equivalents (Note 2):				
Unrestricted	$	69,519,412	76,532,265	146,051,677
Restricted		3,617,440	109,062,082	112,679,522
Receivables:				
Tax revenue		1,865,951	4,820,218	6,686,169
Interest		18,054	3,707,575	3,725,629
Grant and other		31,350	2,790,877	2,822,227
Due from other state agencies		-	96,986	96,986
Due from other funds (Note 5)		-	2,060,560	2,060,560
Administrative fees receivable		-	291,097	291,097
Loans receivable, net of allowance (Note 3)		1,015,000	458,357,554	459,372,554
Securities (Note 4)		-	12,761,663	12,761,663
Restricted asset - escrow		-	47,544,110	47,544,110
Capital assets, net of depreciation (Note 7)		118,808	140,718	259,526
Deferred costs, net		3,032,008	6,314,710	9,346,718
Other assets		-	15,180	15,180
TOTAL ASSETS	$	79,218,023	724,495,595	803,713,618
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	$	495,732	999,801	1,495,533
Accured payroll, fringe benefits and compensated absences (Note 11)		162,151	177,155	339,306
Accrued interest payable		757,854	1,565,982	2,323,836
Debt service payable		111,140	38,387,390	38,498,530
Notes payable		2,000,000	-	2,000,000
Funds held for others		-	59,799,481	59,799,481
Due to other state agencies (Note 5)		-	579,416	579,416
Due to other funds		1,740,846	319,714	2,060,560
Bonds payable, current		10,564,000	24,813,000	35,377,000
Bonds payable, long-term (Note 8)		124,364,465	434,992,324	559,356,789
TOTAL LIABILITIES		140,196,188	561,634,263	701,830,451
NET ASSETS:				
Invested in capital assets (Note 7)		118,808	140,718	259,526
Restricted for:				
Debt service		22,158,186	-	22,158,186
Program funds		(83,255,159)	159,955,266	76,700,107
Unrestricted		-	2,765,348	2,765,348
TOTAL NET ASSETS		(60,978,165)	162,861,332	101,883,167
TOTAL LIABILITIES AND NET ASSETS	$	79,218,023	724,495,595	803,713,618

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
EXPENSES:				
Capital financing	$	72,279,123	24,656,082	96,935,205
PROGRAM REVENUES:				
Charges for services		-	19,799,701	19,799,701
Operating grants and contributions		1,143,328	2,980,048	4,123,376
TOTAL PROGRAM REVENUES		1,143,328	22,779,749	23,923,077
GENERAL REVENUES:				
Governmental gross receipts and gross receipts tax		-	20,998,900	20,998,900
Investment earnings		2,752,656	2,120,723	4,873,379
State General Fund appropriations		26,180,002	-	26,180,002
Other revenue		10,032	-	10,032
TOTAL GENERAL REVENUES		28,942,690	23,119,623	52,062,313
TRANSFERS		1,588,800	(1,588,800)	-
CHANGE IN NET ASSETS		(40,604,305)	19,654,490	(20,949,815)
NET ASSETS, BEGINNING OF FISCAL YEAR		(21,388,860)	139,992,965	118,604,105
Restatement of net assets (Note 16)		1,015,000	3,213,877	4,228,877
NET ASSETS, BEGINNING OF FISCAL YEAR, AS RESTATED		(20,373,860)	143,206,842	122,832,982
NET ASSETS, END OF FISCAL YEAR	$	(60,978,165)	162,861,332	101,883,167

See Notes to Financial Statements.

AS OF JUNE 30, 2005

		Major Funds							
		Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wasterwater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Unrestricted:									
Cash and cash equivalents	$	3,160,269	3,142,321	15,097,298	53,726	15,979,554	29,385,998	2,700,246	69,519,412
Receivables:									
Tax revenue		846,723	127,913	500,000	-	-	-	391,315	1,865,951
Interest		-	-	-	-	-	-	18,054	18,054
Other		-	31,350	-	-	-	-	-	31,350
Loans receivable		-	-	-	-	-	-	1,015,000	1,015,000
		4,006,992	3,301,584	15,597,298	53,726	15,979,554	29,385,998	4,124,615	72,449,767
Restricted:									
Cash and cash equivalents held for others by trustee:									
Debt service		-	-	-	1,516,816	-	-	30,623	1,547,439
Bond reserve		-	505,738	-	-	-	-	197,963	703,701
Expense fund		-	-	-	-	-	-	-	-
Program - grant proceeds for other state agencies		-	102,078	-	-	-	-	-	102,078
Program - bond proceeds		-	902,322	-	-	-	-	361,900	1,264,222
		-	1,510,138	-	1,516,816	-	-	590,486	3,617,440
TOTAL ASSETS	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207
LIABILITIES:									
Accounts payable and accrued liabilities	$	-	-	321,568	239,529	3,655	5,792	87,339	657,883
Debt service payable		111,140	-	-	-	-	-	-	111,140
Notes payable		-	2,000,000	-	-	-	-	-	2,000,000
Funds held for others		-	-	-	-	-	-	-	-
Due to other state agencies		-	-	-	-	-	-	-	-
Due to other funds		1,275,482	-	-	-	19,850	53,573	391,941	1,740,846
TOTAL LIABILITIES		1,386,622	2,000,000	321,568	239,529	23,505	59,365	479,280	4,509,869
FUND BALANCES:									
Reserve for debt service		2,620,370	-	15,275,730	1,331,013	-	-	2,931,073	22,158,186
Special revenue funds		-	2,811,722	-	-	15,956,049	29,326,633	1,304,748	49,399,152
TOTAL FUND BALANCES		2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338
TOTAL LIABILITIES AND FUND BALANCES	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207

See Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2005

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	71,557,338
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
The cost of capital assets is:		147,875
Accumulated depreciation is:		(29,067)
Total capital assets		118,808
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds		3,032,008
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term and other liabilities at year end consist of:		
Bonds payable, net of premium of $2,163,465		(134,928,465)
Accrued interest payable		(757,854)
Total long-term and other liabilities		(135,686,319)
Net assets of governmental activities (Statement of Net Assets)	$	(60,978,165)

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Major Funds							
	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wasterwater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	$ -	-	-	-	430,272	-	713,056	1,143,328
Interest on loans	-	-	-	-	-	-	-	-
Interest on investments	71,427	118,922	333,719	1,049,967	350,989	738,338	89,294	2,752,656
Other revenue	-	-	-	-	-	-	10,032	10,032
TOTAL REVENUES	71,427	118,922	333,719	1,049,967	781,261	738,338	812,382	3,906,016
EXPENDITURES:								
Current:								
Administrative fee	138,469	-	47,153	137,759	-	-	18,350	341,731
Professional services	6,915	12,315	1,428	19,774	72,056	170,269	237,035	519,792
Salaries and fringe benefits	-	-	-	-	92,755	70,303	64,914	227,972
In-state travel	-	-	-	-	6,865	3,765	2,073	12,703
Out-of-state travel	-	-	-	-	804	1,195	4,277	6,276
Maintenance and repairs	-	-	-	-	1,539	1,419	1,990	4,948
Operating costs	-	-	-	-	24,653	20,928	28,114	73,695
Grant expenses	-	-	-	-	1,538,946	10,999,193	561,732	13,099,871
Capital outlay	-	-	-	-	26,351	25,840	67,018	119,209
Debt service - principal	8,360,000	600,000	1,265,000	4,760,000	-	-	-	14,985,000
Debt service - interest	2,774,066	62,810	1,542,586	1,438,648	-	-	1,258,296	7,076,406
Bond issuance costs	-	-	-	458,461	-	-	772,615	1,231,076
TOTAL EXPENDITURES	11,279,450	675,125	2,856,167	6,814,642	1,763,969	11,292,912	3,016,414	37,698,679
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,208,023)	(556,203)	(2,522,448)	(5,764,675)	(982,708)	(10,554,574)	(2,204,032)	(33,792,663)
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	10,000,000	-	-	-	10,000,000
State General Fund appropriations	6,495,663	1,242,405	6,000,000	10,271,553	-	-	2,170,381	26,180,002
Transfers (to) from other funds	2,317,181	(666,461)	-	-	(57,870)	(49,355)	45,305	1,588,800
Transfer to other state agencies	(1,728,888)	(94,150)	(4,666,706)	(43,734,149)	-	-	(738,571)	(50,962,464)
NET OTHER FINANCING SOURCES (USES)	7,083,956	481,794	1,333,294	(23,462,596)	(57,870)	(49,355)	1,477,115	(13,193,662)
NET CHANGE IN FUND BALANCES	(4,124,067)	(74,409)	(1,189,154)	(29,227,271)	(1,040,578)	(10,603,929)	(726,917)	(46,986,325)
FUND BALANCES, June 30, 2004	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	3,947,738	117,528,663
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	1,015,000	1,015,000
FUND BALANCES, June 30, 2004, as restated	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,962,738	118,543,663
FUND BALANCES, June 30, 2005	$ 2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338

See Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2005

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$ (46,986,325)
Amounts reported for governmental activities in the Statement of Activities are different because:	
In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease in the liabilities for the fiscal year was:	
Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Bond obligations were increased during the current fiscal year by:	(10,000,000)
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities these payments are reported as a reduction of the liability. In the current period, these amounts were:	
Principal payments	14,985,000
Other reductions (prepayments, etc.)	412,999
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was:	95,831

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

YEAR ENDED JUNE 30, 2005

Change from prior year in amortization of bond issuance costs:		
Deferred issuance costs FY04 (p. 15 PY)	$ 4,942,712	
Deferred issuance costs FY05 (p. 17 CY)	3,032,008	
		$ (1,910,704)
Change from prior year in amorization of bond premium/discount		
Amortization of bond premium/discount FY04 (p. 58 PY)	4,351,673	
Amortization of bond premium/discount FY05 (p. 61 CY)	2,163,464	
		2,188,209
Reclassification of fund type:		(500,113)
In the prior year, Behavioral Health Clinic Fund was a governmental fund. In the current year, it is an enterprise fund. The $500,113 represents the prior year fund balance.		
Prior period restatement of fund balance		1,015,000
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:		
Capital outlay		119,209
Depreciation expense		(19,869)
Adjustments/Deletions		(3,542)
Excess of capital outlay over depreciation expense		95,798
Change in net assets of governmental activities		
(Statement of Activities)		$ (40,604,305)

AS OF JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
ASSETS:								
Current:								
Cash and cash equivalents	$ 106,734	68,618,877	6,279,814	1,467,353	-	59,487	-	76,532,265
Receivables:								
Tax revenue	-	4,793,654	3,460	-	23,104	-	-	4,820,218
Interest	-	3,580,267	127,308	-	-	-	-	3,707,575
Grant and other	139,005	130,412	2,521,460	-	-	-	-	2,790,877
Due from other state agencies	-	24,069	-	72,917	-	-	-	96,986
Due from other funds	785,078	1,275,482	-	-	-	-	-	2,060,560
Administrative fees receivable	-	276,038	15,059	-	-	-	-	291,097
Total current assets	1,030,817	78,698,799	8,947,101	1,540,270	23,104	59,487	-	90,299,578
Loans receivable, net of allowance	-	435,730,919	16,812,533	-	5,353,237	460,865	-	458,357,554
Securities	-	12,761,663	-	-	-	-	-	12,761,663
Restricted assets - cash and cash equivalents	-	97,435,630	9,350,941	-	2,266,477	9,034	-	109,062,082
Escrow	-	47,544,110	-	-	-	-	-	47,544,110
Capital assets:								
Depreciable property and equipment, net	43,655	36,132	27,339	33,592	-	-	-	140,718
Deferred issuance costs, net	-	6,314,710	-	-	-	-	-	6,314,710
Other assets	15,180	-	-	-	-	-	-	15,180
TOTAL ASSETS	$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595
LIABILITIES:								
Accounts payable and other liabilities	$ 38,744	799,574	156,614	342	-	-	4,527	999,801
Accrued payroll, fringe benefits and compensated absences	158,331	12,246	3,410	3,168	-	-	-	177,155
Accrued interest payable	-	1,565,982	-	-	-	-	-	1,565,982
Debt service payable	-	36,970,234	1,417,156	-	-		-	38,387,390
Funds held for others	-	58,297,200	1,433,504	-	60,854	7,923	-	59,799,481
Due to other state agencies	-	-	579,416	-	-	-	-	579,416
Due to other funds	-	238,986	46,284	30,692	-	-	3,752	319,714
Bonds payable, current	-	-	-	-	-	-	-	-
Bonds payable, long-term	-	459,805,324	-	-	-	-	-	459,805,324
TOTAL LIABILITIES	197,075	557,689,546	3,636,384	34,202	60,854	7,923	8,279	561,634,263
NET ASSETS:								
Invested in capital assets	43,656	36,132	27,339	33,592	-	-	-	140,719
Restricted for:								
Debt service	-	-	-	-	-	-	-	-
Program funds	-	120,796,285	31,474,191	-	7,581,964	521,463	(8,279)	160,365,624
Unrestricted	848,921	-	-	1,506,068	-	-	-	2,354,989
TOTAL NET ASSETS	892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332
TOTAL LIABILITIES AND NET ASSETS	$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
INTEREST EARNINGS:								
Interest on loans	$ -	16,047,183	388,795	-	-	18,656	-	16,454,634
Interest on investments	37,129	1,669,370	243,409	8,623	161,193	999	-	2,120,723
								-
TOTAL INTEREST EARNINGS	37,129	17,716,553	632,204	8,623	161,193	19,655	-	18,575,357
INTEREST EXPENSE:								
Debt service - interest expense	-	16,715,207	-	-	-	-	-	16,715,207
NET INTEREST EARNINGS	37,129	1,001,346	632,204	8,623	161,193	19,655	-	1,860,150
NON-INTEREST EARNINGS:								
Tax revenue	-	20,998,900	-	-	-	-	-	20,998,900
Federal grant revenue	-	-	2,980,048	-	-	-	-	2,980,048
Revolving loans grant revenue	-	-	-	-	-	-	-	-
Administrative fees	1,344,184	275,978	87,008	1,636,202	-	1,695	-	3,345,067
TOTAL NON-INTEREST EARNINGS	1,344,184	21,274,878	3,067,056	1,636,202	-	1,695	-	27,324,015
NON-INTEREST EXPENSE:								
Grant expense	-	1,468,698	-	-	-	-	-	1,468,698
Bond issuance costs	-	288,374	-	-	-	-	-	288,374
Administrative fee	-	-	-	-	-	-	-	-
Professional services	192,978	-	181,725	95,063	1,913	-	8,238	479,917
Loan interest expense	-	187	-	-	-	-	-	187
Salaries and fringe benefits	963,338	482,469	134,170	144,552	-	-	-	1,724,529
Technical set-aside expense	-	-	1,588	-	-	-	-	1,588
In-state travel	11,490	14,712	3,049	4,839	-	-	(13)	34,077
Out of state travel	15,946	10,449	6,898	7,166	-	-	-	40,459
Maintenance and repairs	9,952	5,040	4,323	1,887	-	-	-	21,202
Supplies	30,921	50	5,608	3,065	-	-	-	39,644
Operating costs	151,646	983,643	65,744	25,399	-	-	54	1,226,486
Depreciation	19,869	13,106	7,253	5,526	-	-	-	45,754
TOTAL NON-INTEREST EXPENSE	1,396,140	3,266,728	410,358	287,497	1,913	-	8,279	5,370,915
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS	(14,827)	19,009,496	3,288,902	1,357,328	159,280	21,350	(8,279)	23,813,250
TRANSFERS:								
Transfers in (out)	742,761	(9,519,577)	7,186,103	-	1,913	-	-	(1,588,800)
Transfer from (to) other state agencies	-	-	(2,569,960)	-	-	-	-	(2,569,960)
TOTAL TRANSFERS	742,761	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,760)
CHANGE IN NET ASSETS	727,934	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,490
TOTAL NET ASSETS, June 30, 2004	164,643	108,128,621	23,596,485	182,332	7,420,771	500,113	-	139,992,965
Restatement of net assets	-	3,213,877	-	-	-	-	-	3,213,877
TOTAL NET ASSETS, June 30, 2004, as restated	164,643	111,342,498	23,596,485	182,332	7,420,771	500,113	-	143,206,842
TOTAL NET ASSETS, June 30, 2005	$ 892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Cash paid for employee services	$ (928,263)	(482,469)	(140,944)	(267,846)	-	-	-	(1,819,522)
Cash paid to vendors for services	(606,117)	(2,130,774)	(30,516)	(106,385)	(1,913)	-	-	(2,875,705)
Bond issuance costs	-	(288,374)	-	-	-	-	-	(288,374)
Interest expense paid	-	(15,964,478)	-	-	-	-	-	(15,964,478)
Grants awarded	-	(482,469)	2,554,902	-	-	-	-	2,072,433
Tax revenue	-	18,156,955	-	-	-	-	-	18,156,955
Cash received from federal government for revolving loans	-	-	-	-	-	-	-	-
Interest income received	37,129	17,063,202	632,204	8,623	138,089	19,655	-	17,898,902
Administrative fees received	671,211	-	47,622	1,872,079	-	1,695	-	2,592,607
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:								
Operating transfers, net	742,818	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,703)
Cash paid to subrecipients for services	-	3,120,704	-	-	-	-	-	3,120,704
Cash provided (used) by funds held for others	-	-	(5,847,856)	-	(399,896)	(51,486)	-	(6,299,238)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	742,818	(6,398,873)	(1,231,713)	-	(397,983)	(51,486)	-	(7,337,237)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Securities	-	(1,022,154)	-	-	-	-	-	(1,022,154)
Escrow	-	(47,544,110)	-	-	-	-	-	(47,544,110)
Loans funded	-	(181,046,966)	-	-	-	-	-	(181,046,966)
Loan payments received	-	32,478,397	2,738,514	-	310,974	39,135	-	35,567,020
Bonds issued	-	227,945,000	-	-	-	-	-	227,945,000
Payment of bonds	-	(20,862,967)	(23,095)	-	(13,487)	(23,388)	-	(20,922,937)
Debt service	-	16,744,909	-	-	-	-	-	16,744,909
Fixed asset purchases	(41,160)	(34,437)	(26,663)	(39,118)	-	-	-	(141,378)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(41,160)	26,657,672	2,688,756	(39,118)	297,487	15,747	-	29,579,384
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(124,382)	36,130,392	4,520,311	1,467,353	35,680	(14,389)	-	42,014,965
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2004	231,116	129,924,115	11,110,444	-	2,230,797	82,910	-	143,579,382
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2005	$ 106,734	166,054,507	15,630,755	1,467,353	2,266,477	68,521	-	185,594,347
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:	727,935	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,491
Adjustments to operating income:								
Depreciation and amortization	19,869	13,106	7,253	5,526	-	-	-	45,754
Bad debt expense	-	-	-	-	-	-	-	-
Net transfers	(742,818)	9,519,577	(4,616,143)	-	(1,913)	-	-	4,158,703
(Increase) decrease in prepaids and receivables	(680,543)	(4,513,515)	(464,532)	235,877	(23,104)	-	-	(5,445,817)
Increase (decrease) in payables and other accrued liabilities	(150,483)	1,362,506	231,645	(92,260)	-	-	8,279	1,359,687
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818

See Notes to Financial Statements.

Statement of Agency Fund Assets and Liabilities

AS OF JUNE 30, 2005

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	619,764,448
Expense funds		1,539,634
Bond reserve funds		41,644,551
TOTAL ASSETS	$	662,948,633
LIABILITIES:		
Accounts payable	$	1,319,225
Debt service payable		41,864,960
Funds held for the New Mexico Department of Transportation		619,764,448
TOTAL LIABILITIES	$	662,948,633

See Notes to Financial Statements.

NATURE OF ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act) is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer; the Secretary of the Department of Finance and Administration; the Secretary of Economic Development; the Secretary of Energy, Minerals and Natural Resources; the Secretary of the Environment Department; the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, appoints to the Authority Board, the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of “state agency” or “instrumentality” in any other law of the state, unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

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.

The Authority is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NATURE OF ORGANIZATION - continued

The financial reporting entity as defined by GASB No. 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The Authority has implemented the provisions of GASB No. 34. As a part of this statement, there is a reporting requirement regarding the local government's infrastructure (roads, bridges, etc.) The Authority does not own any infrastructure assets and, therefore, is unaffected by this requirement.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basic Financial Statements***

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis by column, and is reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

♦ ***Government-wide and Fund Financial Statements***

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Government-wide and Fund Financial Statements - continued***

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

The Government-wide financial statements are prepared using the economic resources measurement focus and the accrued basis of accounting. The fund financial statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

♦ ***Basis of Presentation - Fund Accounting***

The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

The following fund types and account groups are used by the Authority:

Governmental Fund Types - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

Special Revenue Fund - State Building Program-Cigarette Tax. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation, provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax, with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act, in the amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds, or any payments for refunding or redemption premiums on the bonds, and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

Special Revenue Fund - State Building Program-Cigarette Tax - continued. The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Special Revenue Fund - Water and Wastewater Project Grant Fund. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

Special Revenue Fund - Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 Legislative Session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Project Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Special Revenue Fund - Water and Wastewater Planning Grant Fund. The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant must not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Basis of Presentation - Fund Accounting - continued

Special Revenue Funds - continued

Special Revenue Fund - Emergency Drought Water Program. Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests, the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - Workers' Compensation Financing Fund. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments, for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by the Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the Americans with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint power agreement to accomplish this purpose. A total of $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of calendar quarter, after all current obligations and any sinking fund requirements are met, shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - State Capitol Improvement Financing Fund. The Laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a state building located adjacent to the State Capitol in Santa Fe known as the New Mexico State Library, and for relocation-associated renovations in the State Capitol. A total of $510,000 of revenue bonds were issued on May 17, 1999 and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority, and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Debt Service Funds - continued

Debt Service Fund - State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of 1) purchasing the National Education Association Building on South Capitol Street in Santa Fe, New Mexico, 2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico, and 3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition, to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may include the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

Debt Service Fund - UNM Health Sciences. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Basis of Presentation - Fund Accounting - continued*

Proprietary Fund Types - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business-type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The enterprise funds are as follows:

Enterprise Fund - Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - Primary Care Capital Fund - continued. for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (see Note 12).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Measurement Focus and Basis of Accounting***

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2005, was $23,791,613.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Measurement Focus and Basis of Accounting - continued***

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

♦ ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer is invested by the New Mexico State Treasurer in the "overnight" repurchase program.

For pooled funds on deposit with the New Mexico State Treasurer, interest is credited to the various programs based on the program's average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102%in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State, or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

♦ ***Securities***

The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds that are recorded at cost, which approximates market value.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Loans***

Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no material loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on non-accrual status.

♦ ***Allowance for Loan Losses***

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. The Authority has not experienced any losses on its loan portfolio.

♦ ***Restricted Assets***

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

♦ ***Budgets and Budgetary Accounting***

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Capital Assets***

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $1,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

♦ ***Income Taxes***

The Authority is a tax-exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

♦ ***Compensated Absences***

Full-time employees are entitled to fifteen days vacation leave with ten years or less employment with the Authority. Employees with more than ten years receive twenty days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid vacation leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

♦ ***Cash Flows***

For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Bond Discounts, Premiums and Issuance Costs***

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

♦ ***Fund Equity***

Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements, which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

♦ ***Net Assets***

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

> Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.
>
> Restricted assets are liquid assets that have third-party (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Authority spends restricted resources first.
>
> Unrestricted assets represent liquid assets.

♦ ***Use of Estimates***

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Interfund and Interagency Transactions*

Interfund and interagency transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE*

Funds held for others and short-term investments are held at the trustees in the names of the applicable government entity and the Authority. The repurchase agreements are overnight only. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	163,405,760	163,405,760
Money market accounts invested in American Performance U.S. Treasury Fund		88,049,119	88,049,002
Repurchase agreements		7,169,586	7,169,586
Wells Fargo operating accounts		106,734	84,745
	$	258,731,199	258,709,093
Agency Fund:			
Money market accounts invested in FNMA	$	41,644,552	41,644,552
Money market accounts invested in American Performance U.S. Treasury Fund		1,539,633	1,539,633
Money market accounts invested in Citigroup U.S. Treasury Fund		593,358,611	593,358,611
State Treasurer Repurchase Agreement		26,405,837	26,405,837
	$	662,948,633	662,948,633

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

The New Mexico State Treasurer's Office is responsible for ensuring that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States, are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The sources of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts that invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations.

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

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES*

Loan receivable balances consist of the following at June 30, 2005:

Enterprise funds:	
Public Project Revolving Loan Fund	$ 436,127,272
Allowance for loan losses	(396,353)
	435,730,919
Primary Care Capital Fund	5,353,237
Drinking Water State Revolving Loan Fund	16,812,533
Behavioral Health Fund	460,865
	$ 458,357,554

♦ *Public Project Revolving Loan Fund*

The Public Project Revolving Loan Fund loans receivable balance at June 30, 2005 is $436,127,272 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

	Principal	Interest	Total
July 1, 2005 to June 30, 2006	$ 46,233,909	14,437,791	60,661,700
July 1, 2006 to maturity	389,893,363	123,486,152	513,379,515
	$ 436,127,272	137,913,943	574,041,215

♦ *Primary Care Capital Fund*

Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

	Principal	Interest	Total
July 1, 2005 to June 30, 2006	$ 407,477	153,176	560,653
July 1, 2006 to maturity	4,945,760	899,217	5,844,977
	$ 5,353,237	1,052,393	6,405,630

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ ***Primary Care Capital Fund - continued***

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

♦ ***Drinking Water State Revolving Loan Fund***

Terms for the Drinking Water State Revolving loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	991,630	354,167	1,345,797
July 1, 2006 to maturity		15,820,903	2,614,154	18,435,057
	$	16,812,533	2,968,321	19,780,854

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

♦ ***Behavioral Health Capital Fund***

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	29,495	12,674	42,169
July 1, 2006 to maturity		431,370	81,291	512,661
	$	460,865	93,965	554,830

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

4. *SECURITIES*

At June 30, 2005, securities for the Public Project Revolving Fund (PPRF) consisted of $12,018,362 of Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B and 2003B); $11,281 of Jemez Springs Bonds; and $732,020 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resources Bonds have interest rates ranging from 3% to 5.6%, with final maturity on May 1, 2018. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45%, with a final maturity on May 1, 2008. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19%, with final maturity on May 1, 2008. The securities are carried at cost, which approximates market value.

The following is a summary of future principal and interest to be collected based on contractual maturity of the securities after year-end:

		Principal	Interest	Total	Weighted Average Maturity
July 1, 2005 to June 30, 2006	$	1,056,286	593,939	1,650,225	2.74
July 1, 2006 to maturity		11,705,377	3,434,023	15,139,400	379.60
	$	12,761,663	4,027,962	16,789,625	382.34

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in The Authority's name. The Authority's investments in securities listed above are not collateralized.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS*

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2005, consist of the following:

		Due From Other Funds	Due To Other Funds
Governmental Funds:			
Water and Wastewater Grant	$	53,573	-
Water Project Fund		19,850	-
Emergency Drought Relief		2,867	-
Water Planning Grant		13,981	-
Economic Development		375,093	-
Metro Court Financing Fund		1,275,482	-
Total Governmental Funds		1,740,846	-
Enterprise Funds:			
Drinking Water Fund		46,284	-
Public Project Revolving Fund		238,986	-
GRIP Fund		30,692	-
Child Care Facility Revolving Fund		3,752	-
Public Project Revolving Fund		-	1,275,482
Operating Fund		-	785,078
Total Enterprise Funds		319,714	2,060,560
Total All Funds	$	2,060,560	2,060,560

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Transfers between funds for the year ended June 30, 2005 are as follows:

		Transfers In	Transfers Out	Net Transfers
Governmental Funds:				
UNM Health Sciences	$	140,761	140,761	-
Metro Court Financing Fund		8,511,003	8,457,697	53,306
Metro Court DS Fund		3,424,358	1,160,483	2,263,875
State Building Program Cigarette Tax		3,071,505	3,737,966	(666,461)
Water and Waste Water Project Grant Fund		800	50,155	(49,355)
Water Project Fund		-	57,870	(57,870)
Emergency Drought Relief		57,870	-	57,870
Economic Development		488	-	488
Water Planning Grant		-	13,053	(13,053)
Total Governmental Funds		15,206,785	13,617,985	1,588,800
Enterprise Funds:				
Operating Fund		4,025,892	3,283,131	742,761
Drinking Water Revolving Loan Fund		7,313,470	127,367	7,186,103
Primary Care Revolving Fund		1,913	-	1,913
Public Project Revolving Fund		646,448,958	655,968,535	(9,519,577)
Total Enterprise Funds		657,790,233	659,379,033	(1,588,800)
Total All Funds	$	672,997,018	672,997,018	-

The following Enterprise Fund owed the following amounts to other state agencies at June 30, 2005:

The Drinking Water Revolving Loan Fund owed $579,416 to the Environment Department for technical set-asides.

6. *TRANSFERS TO OTHER STATE AGENCIES*

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2005:

The UNM Health Sciences transferred $43,734,149 in program fund requests to the entity.

The Workers' Compensation Financing Fund transferred $738,571 to rebate excess debt service funds.

The Metro Court Financing Fund transferred $1,728,888 to rebate excess debt service funds.

The State Building Purchase Fund transferred $4,666,706 in program fund requests to various entities.

The State Building Program Cigarette Tax transferred $94,150 for debt service payments.

The following enterprise fund made the following transfer to other state agencies during the year ended June 30, 2005:

The Drinking Water Revolving Loan Fund transferred $2,569,960 to the New Mexico Environment Department for technical assistance.

7. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	271,609	138,444	(150,614)	259,439
Accumulated depreciation		(225,586)	(37,978)	142,328	(121,236)
Total		46,023	100,466	(8,286)	138,203

7. *CAPITAL ASSETS - continued*

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Leasehold improvements	$	29,113	2,934	(29,113)	2,934
Accumulated depreciation		(29,113)	(419)	29,113	(419)
Total		-	2,515	-	2,515
Net total	$	46,023	102,981	8,286	140,718

Depreciation expense was $19,868 in the Operating Fund, $13,106 in the Public Project Revolving Fund, $7,253 in the Drinking Water Revolving Loan Fund, and $5,526 in the GRIP Administrative Fund for the year ended June 30, 2005.

Governmental Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	34,038	116,462	(5,371)	145,129
Accumulated depreciation		(11,028)	(19,477)	1,829	(28,676)
Total		23,010	96,985	(3,542)	116,453
Leasehold improvements		9,725	2,747	(9,725)	2,747
Accumulated depreciation		(9,725)	(392)	9,725	(392)
Total		-	2,355	-	2,355
Net total	$	23,010	99,340	3,542	118,808

7. *CAPITAL ASSETS - continued*

Depreciation expense was $7,973 in the Water and Wastewater Project Grant Fund, $7,930 in the Water Project Fund, $2,445 in the Emergency Drought Water Program Fund, $3,076 in the Water and Wastewater Planning Grant Fund and $1,624 in the Economic Development Fund for the year ended June 30, 2005.

8. *BONDS PAYABLE*

Bonds outstanding as of June 30, 2005, for the Authority's enterprise funds consist of the following:

Public Project Revolving Funds (PPRF)

PPRF Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A, in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investments securities.

PPRF Series 1999A, 1999B, 1999C and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax exempt) and Series 1999 and 1999D (taxable), in the aggregate principal amounts of $13,135,000, $3,025,000, $2,265,000 and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

PPRF Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A Bonds, in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2000B and C. On September 1, 2000, the Authority issued $7,670,000 of Public Project Revolving Fund, Series 2000B and $28,850,000 Series 2000C Bonds. The Series 2000B and C bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various Governmental Units and to reimburse the Authority for and to finance the costs of issuance of the Series 2000B and C Bonds.

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

8. BONDS PAYABLE - continued

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

8. *BONDS PAYABLE - continued*

Bonds outstanding as of June 30, 2005, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds, Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds is for designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds.

8. *BONDS PAYABLE - continued*

Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 19965B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

8. *BONDS PAYABLE - continued*

State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issued revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds, Series 2002A, were issued on December 15, 2001, for purpose of financing the costs of acquiring, constructing, equipping and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

8. *BONDS PAYABLE - continued*

Bonds payable and related premium/discount balances consist of the following at June 30, 2005

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1997A	$	5,870,000	4.25 - 5.00	6/1/2017
PPRF 1999A, B, C and D		14,370,000	3.30 - 6.30	6/1/2018
PPRF 2000A		2,215,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		12,985,000	4.35 - 5.60	6/1/2030
PPRF 2002A		33,080,000	2.00 - 5.00	6/1/2026
PPRF 2003A		34,590,000	2.00 - 4.75	6/1/2032
PPRF 2003B		25,570,000	2.00 - 5.00	6/1/2021
PPRF 2004A		39,975,000	1.125 - 5.00	6/1/2031
PPRF 2004B		47,575,000	3.00 - 5.125	6/1/2033
PPRF 2004C		165,280,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D		56,510,000	3.05 - 5.00	Various
		438,020,000		
Bond premium and discount, net on enterprise funds		21,785,324		
Total	$	459,805,324		

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service funds:				
UNM Health Sciences	$	34,275,000	2.00 - 5.00	6/30/2019
UNM Health Sciences 2004B		10,000,000	2.10 - 5.50	6/30/2019
Workers' Compensation Financing Fund		3,135,000	5.00 - 5.60	3/1/2017
Metro Court		46,325,000	5.50 - 5.80	2025
State Capitol Improvement Financing Fund		6,990,000	7.00	3/15/2015
State Building Purchase Fund		30,170,000	4.00 - 5.00	6/1/2021
COP-Equipment Loan Fund Series 94A		-	4.55 - 6.45	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B		631,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A		110,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B		529,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond		600,000	3.95 - 5.25	6/1/2006
		132,765,000		

8. ***BONDS PAYABLE - continued***

		Amount
Bond premium and discount, net on Debt Service Funds		2,163,465
Total	$	134,928,465

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2006	$	35,377,000	26,625,398	62,002,398
2007		33,027,000	25,382,569	58,409,569
2008		30,926,000	24,197,200	55,123,200
2009		32,699,000	22,935,717	55,634,717
2010		33,746,000	21,563,456	55,309,456
2011 - 2015		188,591,365	65,133,965	253,725,330
2016 - 2020		136,345,635	44,252,171	180,597,806
2021 - 2025		73,013,000	13,843,012	86,856,012
2026 - 2030		6,815,000	1,173,570	7,988,570
2031 - 2033		245,000	83,369	1,113,369
Total	$	570,785,000	245,190,427	815,975,427

The bonds payable activity for the year is as follows:

		Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
Enterprise Funds	$	251,961,838	227,945,000	41,886,838	438,020,000
Debt Service Funds		139,178,000	10,000,000	16,413,000	132,765,000
Total	$	391,139,838	237,945,000	58,299,838	570,785,000

The amount of bonds payable due within one year is $35,377,000.

8. *BONDS PAYABLE - continued*

The following bonds were issued by the Authority in an agency capacity and are not included in the Authority's financial statements (see Note 12):

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation, Series 2004A, Revenue Bonds. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation, Series 2004B, Refunding Revenue Bonds. The Series 2004B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation, Series 2004C, Refunding Revenue Bonds. The Series 2004C Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

9. *OPERATING LEASE COMMITMENT*

The Authority is committed under various lease agreements for office space and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2005 amounted to approximately $207,800.

9. *OPERATING LEASE COMMITMENT - continued*

Future minimum lease payments for these leases are as follows:

Years ending June 30:

2006	$	275,748
2007		275,748
2008		273,832
2009		270,000
2010		202,500
2011 and thereafter		-
	$	1,292,828

10. *RETIREMENT PLAN*

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $204,975, $153,937 and $99,057 for the years ended June 30, 2005, 2004 and 2003, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2005, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

10. *RETIREMENT PLAN - continued*

Statement of Fiduciary Net Assets

Assets:		
Cash	$	20,331
Self-directed accounts (cash and investments)		835,716
Participant loan receivable		33,914
Total assets	$	889,961
Net assets:		
Pension plan participants' benefits	$	889,961

Statement of Changes in Net Assets

Additions:		
Investment earnings	$	57,412
Employer contributions		204,975
Employee contributions		61,693
Total additions		324,080
Deductions:		
Distributions to participants		60,442
Investment expenses		7,168
Total deductions		67,610
Change in net assets		256,459
Net assets - beginning		633,492
Net assets - ending	$	889,961

10. *RETIREMENT PLAN - continued*

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code to its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2005 were $11,007.

11. *COMPENSATED ABSENCES*

During the year ended June 30, 2005, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
$	152,658	75,676	96,056	132,278

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

12. *AGENCY TRANSACTIONS*

Bond Issues

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

12. *AGENCY TRANSACTIONS - continued*

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 3.8%to 5.25%per annum is payable semi-annually on June 15 and December 15 through the year 2024.

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

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

The NMDOT is responsible for the Authority issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 2%to 5%per annum is payable semi-annually on June 15 and December 15 through the year 2014.

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

The Authority is responsible for its issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15 with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is fixed at 3.393%based on a swap agreement in place at June 30, 2004.

12. *AGENCY TRANSACTIONS - continued*

For the year ended June 30, 2005, the Authority recorded $341,731 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2005, the Authority had $662,948,633 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

Refunding

The Authority, on behalf of the NMDOT, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. $381,835,000 of the bonds outstanding was considered defeased as of June 30, 2004.

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

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

Terms. The swaps were entered into with J.P. Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072%, based on an amortizing notional schedule

12. *AGENCY TRANSACTIONS - continued*

State Transportation Revenue Bonds, Series 2006 - continued

with a combined $220,000,000 initial amount. Under the swaps, the Authority pays 5.072%and receives BMA. The incorporated knock-out option was priced with a 7%barrier, effective from settlement to maturity and based on an "American" option exercise schedule. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair value. As of June 30, 2005, the swaps had a negative fair value of $33,840,224 without the option. The options had a negative value of $11,128,234 in isolation of the swaps; thus the swaps including the options had a total negative value of $44,968,458. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial case reserves which will mitigate this risk by generating variable rate income.

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

Objective of the swaps. In April of 2004, the Authority entered into three swaps on behalf of NMDOT with three counterparties to synthetically refund outstanding Bonds which provided the Authority with present value savings of $11,524,206, or 3.02%of the Refunded Bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate

12. AGENCY TRANSACTIONS - continued

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

bonds at the time of issuance. In addition, through this structure the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swaps was to effectively change the Authority's interest rate on the bonds to a fixed rate.

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

Fair value. As of June 30, 2005, the Lehman swap and Goldman swap each had a negative fair value of $5,157,441, while the RBC swap had a negative value of $10,314,882. The total negative fair value on all the swaps was $20,629,764. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. After June 15, 2006, the Authority will be exposed to tax risk as reflected by the relationship between the rate paid on the outstanding bonds and 68% of one month LIBOR the rate received on the swap. Tax risk is a form of basis risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events.

13. SUBSEQUENT EVENTS

After June 30, 2005, the Authority issued the following PPRF Direct Loans, Planning Fund Grants, Water Project Fund/Water Trust Board Grants and Water Wastewater Grants:

	Closing Date		Amount
PPRF Cash Loans:			
City of Bloomfield	7/1/2005	$	216,218
Farmington Municipal Schools	7/1/2005		1,000,000
Lordsburg Municipal Schools	7/15/2005		1,500,000
New Mexico Junior College	7/15/2005		4,589,369
City of Carlsbad	7/19/2005		1,000,000
Dexter Consolidated Schools	8/19/2005		500,000
Bent Fire Department (Interim)	9/2/2005		78,804
Otero County, La Luz Fire Department (Interim)	9/2/2005		187,778
Town of Estancia	9/9/2005		125,339
Town of Elida	9/16/2005		22,500
Vaughn Fire Department (Interim)	9/16/2005		138,889
Truth or Consequences Municipal Schools	9/23/2005		1,750,000
Tierra y Montes Soil and Water	9/23/2005		207,590
Torrance County District 5 Fire Department	9/23/2005		544,537
Tularosa Village	9/23/2005		311,112
Village of Dora (Interim)	9/23/2005		126,550
Sierra County Lakeshore Fire Department (Interim)	9/30/2005		86,000
		$	12,384,686
Planning Grant:			
Quemado Lake Water Association	9/23/2005	$	22,500
		$	22,500
Water Project Fund/Water Trust Board:			
Ute Creek Soil and Water	8/26/2005	$	500,000
		$	500,000
Water Wastewater Grants:			
Villanueva MDWCA	7/1/2005	$	90,000
Ramah Navaho	7/1/2005		345,600
La Bajada Comm Ditch	7/15/2005		87,300
Torreon Chapter Navajo	7/22/2005		400,000
Picuris Pueblo	7/29/2005		108,000
Pecan Park MDWCA	8/26/2005		400,000
Fambrough MDWCA	8/26/2005		396,945
Town of Mesilla	8/26/2005		400,000
		$	2,227,845

13. SUBSEQUENT EVENTS - *continued*

	Closing Date		Amount
PPRF Revenue Bonds Series 2005A	8/1/2005	$	19,015,000
		$	19,015,000
PPRF Revenue Bonds Series 2005B	8/1/2005	$	13,500,000
		$	13,500,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005C	4/5/2005	$	50,395,000
		$	50,395,000
Taxable Subordinate Lien PPRF Refunding Revenue Bonds Series 2005D	4/5/2005	$	8,660,000
		$	8,660,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005E	8/30/2005	$	23,630,000
		$	23,630,000

Energy Efficiency and Renewable Energy Bonding Fund. House Bill 32 created the Energy Efficiency and Renewable Energy Bonding Fund at the Authority. The Authority would issue bonds based on projected savings and from a $200,000 per month allocation from the General Fund to the Authority. The proceeds from the bonds would be used to pay for energy efficient improvements at state-owned buildings or public schools. The Authority is authorized to issue up to $20 million in bonds for this purpose.

14. RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND

The Behavioral Health Capital Fund was created by legislation in 2004 by Chapter 6, Article 26-4. The fund is a revolving fund consisting of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund.

The purpose of the fund is to make loans to eligible entities to acquire, construct, renovate or improve capital projects. Eligible entities are defined as nonprofit behavioral health facilities with assets totaling less than $10,000,000, are 501(c)(3) nonprofit corporations for federal income tax purposes and serve primarily sick and indigent patients.

14. RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND - continued

The Authority administers the fund in conjunction with the New Mexico Department of Health pursuant to the provisions of the Behavioral Health Capital Funding Act (6-26-1 NMSA 1978). The Authority is responsible for all financial duties of the program, including administering the fund. The Department of Health is responsible for defining sick and medically indigent persons for the purpose of determining eligible facilities, establishing priorities for loans and determining the appropriateness of a capital project.

In prior year audited financial statements, the Behavioral Health Capital Fund was reported as a governmental activity. Based on the purpose and administration of the fund, this fund has been reclassified to an enterprise fund in the current year financial statements.

15. DEFICIT FUND / NET ASSETS

There is a deficit fund balance in the Economic Development Fund of $381,499. The Child Care Revolving Loan Fund has a deficit of $8,279. The operating fund will cover the deficits in these funds.

16. PRIOR PERIOD RESTATEMENTS

In the prior year, the bonds payable and loans receivable in the Public Project Revolving Funds were overstated by $13,435,000 and $11,421,000, respectively. The overstatement was a result of the failure to properly record the transfer of debt and associated loans to the City of Santa Fe. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $2,014,000.

Additionally, two bonds payable in the Public Project Revolving Funds were overstated by $485,000 and $714,877, respectively, due to unrecorded principal payments. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $1,199,877.

In prior years, loans receivable in the Equipment Loan Fund were not recorded on the books of the Authority. The addition of the loans receivable resulted in an increase in fund balance as of June 30, 2004, of $1,015,000.

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
ASSETS:							
Cash and cash equivalents	$ -	287,803	-	360,589	1,415,962	635,892	2,700,246
Receivables:							
Tax revenue receivable	-	-	303,373	83,065	-	4,877	391,315
Interest receivable	-	-	18,054	-	-	-	18,054
Loans receivable	-	-	1,015,000	-	-	-	1,015,000
	-	287,803	1,336,427	443,654	1,415,962	640,769	4,124,615
Restricted assets:							
Cash and cash equivalents held for others by trustee:							
Debt service	-	-	30,623	-	-	-	30,623
Bond reserve	-	-	-	-	-	197,963	197,963
Expense fund	-	-	-	-	-	-	-
Program - grant proceeds for other state agencies	-	-	-	-	-	-	-
Program - bond proceeds	-	-	-	-	-	361,900	361,900
	-	-	30,623	-	-	559,863	590,486
	$ -	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

AS OF JUNE 30, 2005

		Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
LIABILITIES AND FUND BALANCES:								
LIABILITIES:								
Accounts payable and accrued liabilities	$	6,406	119	-	80,263	551	-	87,339
Debt service payable		-		-	-	-	-	-
Notes payable		-	-	-	-	-	-	-
Funds held for others		-	-	-	-	-	-	-
Due to other state agencies		-	-	-	-	-	-	-
Due to other funds		375,093	2,867	-	-	13,981	-	391,941
TOTAL LIABILITIES		381,499	2,986	-	80,263	14,532	-	479,280
FUND BALANCES:								
Fund balances (deficit) -								-
reserved for:								-
Debt service		-	-	1,367,050	363,391	-	1,200,632	2,931,073
Special revenue funds		(381,499)	284,817	-	-	1,401,430	-	1,304,748
TOTAL FUND BALANCES		(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821
TOTAL LIABILITIES AND FUND BALANCES	$	-	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

YEAR ENDED JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
REVENUE:							
Tax revenue	$ -	-	713,056	-	-	-	713,056
Grant revenue	-	-	-	-	-	-	-
Interest on loans	-	-	-	-	-	-	-
Interest on investments	-	9,621	-	6,508	33,670	39,495	89,294
Other revenue	-	-	10,032	-	-	-	10,032
TOTAL REVENUE	-	9,621	723,088	6,508	33,670	39,495	812,382
EXPENDITURES:							
Current:							
Administrative fee	-	-	-	18,350	-	-	18,350
Professional services	190,362	3,453	-	-	41,589	1,631	237,035
Salaries and fringe benefits	48,937	(1,646)	-	-	17,623	-	64,914
In-state travel	1,554	(327)			846		2,073
Out-of-state travel	4,211		-	-	66	-	4,277
Maintenance and repairs	1,078	117	-	-	795	-	1,990
Operating costs	15,707	3,840	-	-	8,567	-	28,114
Grant expense	-	213,300	-	-	348,432	-	561,732
Capital outlay	23,888	20,849	-	-	22,281	-	67,018
Debt service:							
Principal payments	-	-	618,296	465,000	-	175,000	1,258,296
Interest expense	-	-	84,187	513,800	-	174,628	772,615
Bond issuance costs	-	-	-	-	-	-	-
TOTAL EXPENDITURES	285,737	239,586	702,483	997,150	440,199	351,259	3,016,414
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(285,737)	(229,965)	20,605	(990,642)	(406,529)	(311,764)	(2,204,032)

See Independent Auditors' Report.

YEAR ENDED JUNE 30, 2005

		Economic Development	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
OTHER FINANCING SOURCES (USES):								
Bond proceeds	$	-	-	-	-	-	-	-
State General Fund appropriations		-	-	85,965	995,913	-	1,088,503	2,170,381
Transfers (to) from other funds		488	57,870	-	-	(13,053)	-	45,305
Transfers to other state agencies		-	-	-	-	-	(738,571)	(738,571)
TOTAL OTHER FINANCING SOURCES (USES)		488	57,870	85,965	995,913	(13,053)	349,932	1,477,115
NET CHANGE IN FUND BALANCE		(285,249)	(172,095)	106,570	5,271	(419,582)	38,168	(726,917)
FUND BALANCE, June 30, 2004		(96,250)	456,912	245,480	358,120	1,821,012	1,162,464	3,947,738
PRIOR PERIOD ADJUSTMENT		-	-	1,015,000	-	-	-	1,015,000
FUND BALANCES, June 30, 2004, adjusted		(96,250)	456,912	1,260,480	358,120	1,821,012	1,162,464	4,962,738
FUND BALANCE, June 30, 2005	$	(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821

SUPPLEMENTAL SCHEDULES

YEAR ENDED JUNE 30, 2005

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	HSBC New York (New York)	Total
Bank accounts:				
Operating account - checking	$ 84,745	-	-	84,745
Wire transfer account	-	-	-	-
Repurchase agreements	-	3,889,896	3,279,691	7,169,587
Total amount of deposits	84,745	3,889,896	3,279,691	7,254,332
FDIC coverage	84,745	-	-	84,745
Total uninsured public funds	-	3,889,896	3,279,691	7,169,587
Collateral requirement @102%	-	3,967,694	3,345,285	7,312,979
Pledges and securities:				
FNMA, matures January 1, 2032 Held at Wells Fargo, San Francisco, CA CUSIP 31385H2K9 Par $106,894 Rated by Moody's "AAA"	109,728	-	-	109,728
UST Note, matures November 15, 2005 Held at Wells Fargo, Charlotte, NC CUSIP 912827V82 Par $4,400,000	-	4,441,250	-	4,441,250
UST Note, matures August 15, 2007 Held at JP Morgan Chase, New York, NY CUSIP 9128273E0 Par $3,180,000	-	-	3,412,273	3,412,273
Over/(under) secured	$ 109,728	473,556	66,988	650,272

Pledged collateral amounts are in compliance with the collateral requirement of 102%

YEAR ENDED JUNE 30, 2005

		Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
DEPARTMENT OF TRANSPORTATION					
ASSETS:					
Cash and investments	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL ASSETS	$	-	2,157,505,359	1,494,556,726	662,948,633
LIABILITIES:					
Deposits held in trust for others	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL LIABILITIES	$	-	2,157,505,359	1,494,556,726	662,948,633
		-	-	-	-

SINGLE AUDIT

YEAR ENDED JUNE 30, 2005

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Environmental Protection Agency:		
Capitalization Grants for Drinking Water		
State Revolving Funds	66.648	$ 2,980,318
Total EPA		$ 2,980,318
Funds passed through to sub-receipients		$ 2,569,690

Loans funded	Original Balance	Balance at June 30, 2005
Revolving loans		
Loans funded in previous years	$ 21,162,361	16,812,533
Total loans funded	$ 21,162,361	16,812,533

The revolving loans are funded through a mix of 80%federal and 20%state monies.
The technical set-aside loans are funded with 100%federal monies.

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Authority.

BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Authority's general purpose financial statements.

Reconciliation to Financial Statements (page 25)

Transfers to other state agencies	$	2,569,960
Total non-interest expense		410,358
Total EPA expenditures	$	2,980,318

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

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New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2005. We have also audited the financial statements of each of the Authority's nonmajor governmental funds presented as supplementary information in the combining fund financial statements as of and for the year ended June 30, 2005, and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompany schedule of findings and questioned costs as items 05-01, 05-02 and 05-12. We noted other matters involving the internal control over financial reporting that are required to be reported per section 12-6-5 NMSA 1978, and are detailed in findings 05-03 and 05-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance and Other Matters

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

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

Meyners + Company, LLC

December 9, 2005

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

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New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the financial statements of the New Mexico Finance Authority (Authority), with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the Authority, the State of New Mexico Office of the State Auditor, and the cognizant audit agency and other federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

December 9, 2005

YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Finance Authority (Authority).

2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Authority.

3. Three reportable conditions were disclosed during the audit of the financial statements and are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

4. There were no reportable conditions in the internal control over major programs disclosed by the Authority.

5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.

6. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

7. The program tested as a major program is:
   Capitalization Grants for Drinking Water State Revolving Fund
   CFDA Number 66.648

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

05-01 OBTAINING SIGNED AUDIT CONTRACT PRIOR TO COMMENCEMENT OF WORK (Reportable Condition)

Reportable Condition: The Authority did not have sufficient procedures to ensure that all necessary compliance requirements were met prior to allowing the audit to commence. The Office of the State Auditor noted that the Authority's auditors began work on the fiscal year 2005 audit without a State Auditor signed contract in place.

Criteria: Section 12-6-14, NMSA 1978, states "each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the state auditor. . ."

Cause: A contract was approved by the Authority's Board, signed by the Authority and the audit firm and submitted to the Office of the State Auditor. The State Auditor contacted the Authority and required that the contract be revised to comply with its requirements for including special provisions. Due to a change in personnel at the Authority and at the audit firm, the contract was not resubmitted to the Office of the State Auditor prior to the commencement of the audit.

Effect: The Authority is out of compliance with State Statute, the Procurement Code and State Auditor Rules. It is possible that the audit would not have been accepted by the Office of the State Auditor. However, the Office of the State Auditor has now signed the revised contract.

Auditors' Recommendation: The Authority should ensure that the audit contract is signed by the State Auditor before the commencement of the audit.

Agency Response: The Authority agrees with the finding as reported above. In the future, the CFO of the Authority will assume direct responsibility for obtaining all required signatures on the contract and delivering the contract to the Office of the State Auditor.

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES (Reportable Condition)

Reportable Condition: The Authority did not have formal procedures in place that require additional technical review of unusual or infrequent journal entries. Since the Authority keeps its books on a cash basis, many of these journal entries relate to accruals and are only recorded at year-end.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES - continued

Criteria: Unusual or infrequent journal entries inherently have a higher risk that the associated transaction could be posted incorrectly. Additionally, the Authority's transactions are more complex than that of many other organizations.

Cause: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2A, the Authority had not recognized the benefits of obtaining additional review of unusual or infrequent journal entries.

Effect: Significant adjusting journal entries were identified during the audit preparation process by the Authority and by the auditors, including prior period adjustments, adjustments to record fund activity for a fund that had been converted from a trust fund, new bond issue activities, etc.

Auditors' Recommendation: The Authority should establish procedures to require approval of significant or unusual journal entries, including obtaining appropriate advice from its outside advisors and independent auditors, as transactions occur throughout the year.

Agency Response: The Authority agrees with the finding as reported above. Additional reconciliation procedures were put in place during FY2005, which enabled Authority staff to identify necessary adjustments. Such procedures will be strengthened prior to the next audit. Complex transactions will be discussed with both our external and internal auditors to ensure proper accounting treatment.

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY

Reportable Condition: The Authority disposed of old and unused fixed assets during the current fiscal year. The Authority did not follow New Mexico State Auditor rules regarding the submission of a list of fixed asset deletions as required by State Auditor Rule.

Criteria: Per SAO 2.2.2.10 W, the Authority is subject to the State Auditor rules and should have notified the State Office prior to the disposal of fixed assets.

Cause: The Authority was not aware of the requirement to notify the State Auditor prior to the disposition of fixed assets.

Effect: The Authority is in violation of State Auditor rules.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY - continued

Recommendation: The Authority should adopt fixed asset disposition procedures that are consistent with State Auditor rules and other state laws and regulations.

Agency Response: The Authority disposed of most property by donating it to schools. No Authority property has ever been purchased through the State procurement system and belongs solely to the Authority. However, in the future all asset dispositions will be first cleared with the State Auditor's Office.

05-04 PERFORMING A PHYSICAL INVENTORY OF FIXED ASSETS

Condition: The Authority does not tag its fixed assets to identify its property.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 14, Section 3.4A, the tagging of fixed assets facilitates the taking of the annual inventory and identifies property belonging to the Authority.

Cause: Staff shortages have prevented the Authority from implementing this internal control procedure.

Effect: Fixed assets could be stolen, misplaced or disposed of without Authority knowledge.

Recommendation: The Authority should tag all of its fixed assets.

Agency Response: A new tagging system was implemented during FY2006. The new tagging system is known as the Dymo Letra Tag.

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY

Condition: The Authority has numerous transactions between funds and certain other state agencies. Some of this activity is not segregated from other receivables, payables and transfers within the Authority's general ledger.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY - continued

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 9, Section 9.1, segregation of all interfund and interagency activity makes it easier to reconcile this activity with the corresponding agency or fund. Interfund and interagency transactions must be presented separately in the Authority's audited financial statements so that such activity can be eliminated in the state wide financial statements.

Cause: The Authority has significant transactions with other agencies and between funds as part of its normal operating process. Segregation of these transactions has not been identified as a necessity.

Effect: Preparation of the statewide financial statements is more difficult when these accounts are not segregated.

Recommendation: All interfund and interagency activity should be separated in the general ledger with unique general ledger account codes.

Agency Response: The Authority will create unique general ledger codes in order to ensure that interfund and interagency activity can be easily identified.

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS

Condition: Fees and costs are collected from entities to which the Authority has loaned money. In certain cases, these fees and costs have been recorded as liabilities held for offering costs. While in some cases these liabilities may represent deferred revenue for amounts collected in advance, in other cases these liabilities could actually be restricted revenue.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 3B, Section 3, improper treatment of these fees and costs could result in an understatement of revenue and fund balances.

Cause: The Authority's current finance personnel have not yet had the opportunity to review the historical treatment of transactions to evaluate whether the historical treatment is consistent with governmental accounting standards.

Effect: Immaterial liabilities are included in the Authority's financial statements that are not supported by adequate documentation, resulting in an overstatement of liabilities.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS - continued

Recommendation: The treatment of the liabilities should be researched and a determination should be made as to whether these accounts are recorded properly in accordance with governmental accounting standards.

Agency Response: Accounting staff will complete a review and reconciliation during FY2006 to determine the correct disposition of any immaterial liabilities that exist and determine the proper accounting treatment of such liabilities.

05-07 CAPITALIZING BOND OFFERING COSTS

Condition: In reviewing expenditure activity, it was noted that certain bond-offering costs were recorded in professional fee and other expense accounts.

Criteria: The Government Accounting Standards Board (GASB) requires that bond offering costs for enterprise funds be capitalized and amortized over the life of the bond. For governmental fund types, theses costs should also be segregated in the general ledger for proper presentation in the Authority's full accrual-based financial statements.

Cause: On occasion, invoices for bond offering costs are received substantially after the bond has closed. As a result, these invoices are inadvertently charged to incorrect accounts.

Effect: Expenses could be overstated by the amount of unamortized bond offering costs.

Recommendation: All bond offering costs should be identified and charged to the appropriate general ledger account.

Agency Response: In prior periods, it was felt that one administrative account held at the trustee could be established for the purpose of paying bond offering costs. However, as the level of activity has increased at the Authority, separate accounts for each bond offering will be established for the purpose of tracking bond offering costs.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-08 RECORDING UNEMPLOYMENT INSURANCE EXPENSE

Condition: The Authority is self-insured for unemployment insurance. The Authority estimates and accrues the estimated unemployment insurance. The expense is charged to the various funds. The Authority has not experienced significant unemployment insurance claims. In the current fiscal year, there were no payments for unemployment claims. However, an expense was recorded for the estimated liability.

Criteria: Per DFA's *Model Accounting Practices,* Volume I, Chapter 6, Section 3, unemployment insurance expense is charged to programs when there is no unemployment insurance incurred.

Cause: The Authority has not reviewed their procedures for recording accruals due to staff shortage during the current fiscal year.

Effect: Accrued liabilities and expenses could be overstated.

Recommendation: A reasonable accrual for unemployment insurance is appropriate when self-insured. However, the reasonableness of the accrual should be reviewed and adjusted on an annual basis.

Agency Response: Accounting staff will review the accrual made for the purpose of recording unemployment insurance expense. It is probable that the accrual will be eliminated in favor of recording only actual expenses incurred.

05-09 CLOSING INACTIVE TRUST ACCOUNTS

Condition: The Authority has numerous trust accounts. Many of these trust accounts have no balances. Some of these accounts are related to loans that have been paid off.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 4, Section 4, proper internal control procedures would require that all inactive trust accounts be closed promptly.

Cause: The Authority does not actively monitor the status of trust accounts held at the trustee, Bank of Albuquerque, and relies on the trustee to identify accounts that should be closed.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-09 CLOSING INACTIVE TRUST ACCOUNTS - continued

Effect: Trust accounts that remain open after the related loan activity has ceased create a risk that individuals may access the account for fraudulent purposes or that activity is being recorded in an improper account

Recommendation: The Authority should review the status of trust accounts on a regular basis and take a more active role in initiating account closures.

Agency Response: The Authority will take a more active role in reviewing inactive trust accounts and discussing their closure with the trustee. However, it is important to note that these accounts may remain open during at least one fiscal year after activity has ceased in the account. These trustee accounts belong to the borrower, not the Authority.

05-10 CLEARING RECONCILING ITEMS

Condition: The Authority has immaterial reconciling items in its wire transfers account that date back to the prior fiscal year. The origin of the items is well documented by Authority staff, but the journal entry to record the items had not been completed as part of year-end closing.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2, reconciling items should be recorded timely to ensure accurate account balances.

Cause: The shortage of staff during the current fiscal year has resulted in certain immaterial adjusting entries not being recorded on a timely basis.

Effect: The bank account is overstated by the amount of the reconciling items.

Recommendation: Adjusting entries to the wire transfers account should be reviewed as part of the monthly bank reconciliation process and made on a timely basis.

Agency Response: Reconciling items will be more closely reviewed on a monthly basis to ensure that all items are cleared.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-11 ANNUAL AFFIRMATION OF CODE OF CONDUCT

Condition: The Authority had all employees sign a Code of Conduct policy in September/October 2004 due to a revision of the policy.

Criteria: Sound internal control procedures dictate that code of conduct and conflict of interest policies should be reviewed on a regular basis. Recent events in both corporate and government settings reflect the need to enhance awareness of and consent to code of conduct and conflict of interest policies.

Cause: Current events have increased the awareness of the importance of an annual review of these policies by all employees.

Effect: Failure to annually review and affirm code of conduct and conflict of interest policies could lead to lapses in employee compliance with such policies.

Recommendation: The Authority should require all employees to review and sign a code of conduct and a conflict of interest policy annually.

Agency Response: In discussions with the Human Resources Director, the affirmation of the Code of Conduct will be conducted on an annual basis. The policy will be reviewed with employees and they will sign off on a statement acknowledging review of the policy.

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS (Reportable Condition)

Condition: New Mexico Finance Authority did not file their fiscal year 05 financial statements on time to the State Auditor's office.

Criteria: Per section 2.2.2.9A(1)(f) of the State Auditor rulebook, state agency reports are due no later than December 15.

Cause: Due to turnover in personnel, the auditors did not have the report completed in time for management to review the financial statements.

Effect: Not in compliance with the State Auditor rulebook section 2.2.2.9A(1)(f).

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS - continued

Recommendation: The audit will begin earlier for FY06 to ensure meeting the State Auditor deadline.

Agency Response: Authority accounting staff will ensure that the outside auditor begins the audit earlier in FY 2006, provides accounting staff with a list of necessary documents and schedules prior to commencing the audit (at an earlier date than in FY 2005), and provides audit personnel with a sufficient level of expertise to conduct audit fieldwork.

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

None

04-01 Drinking Water State Revolving Fund - Cash Draw and State Match Requirements –

Current Status - Cash Draw: The Authority is reimbursing participant loans with funds already drawn down until these funds have been exhausted.

Current Status - State Match Requirements: Resolved

An exit conference was held with the Authority on December 12, 2005. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

William C. Sisneros, Executive Director
Jerome Trojan, Chief Operations Officer
Joe Gosline, Chief Financial Officer
James Jimenez, Audit Committee Chairman
Grace Romero, Finance Manager

MEYNERS +COMPANY, LLC

Reta Jones, Principal
Georgie Ortiz, Senior Audit Manager

PREPARATION OF FINANCIAL STATEMENTS

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

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APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are extracts, supplementing the information in the body of the Official Statement, of certain defined terms in and provisions of the Indenture. These extracts do not purport to be complete. Please refer to the Indenture itself for a full and complete statement of such provisions. During the offering period of the 2006B Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the 2006B Bonds, copies of the Indenture may be obtained from the Trustee. See "ADDITIONAL INFORMATION."

CERTAIN DEFINITIONS

"Account" or "Accounts" means one or more of the special trust accounts created and established pursuant to the Indenture.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and as the same may hereafter be amended and supplemented.

"Additional Bonds" means any Bonds of the NMFA, authorized and issued under the Indenture, in compliance with the Indenture, except for the Series l995A-B Bonds.

"Additional Pledged Loans" means any additional loans or securities which (i) were made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund and (ii) the payments of principal and interest on which have been specifically pledged by the NMFA to the payment of the Bonds and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Agreement" or "Agreements" means, as the case may be, one or more Loan Agreements, Grant Agreements or Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of a Project by the NMFA under the General Indenture.

"Agreement Pledged Revenues" means the pledged revenues designated by a Governmental Unit for payments to be made pursuant to the respective Loan Agreement, Security Documents or Securities.

"Agreement Reserve Fund" means the Agreement Reserve Fund established by the Indenture and each Agreement Reserve Account, if any, created by an Agreement.

"Agreement Reserve Requirement" for each Agreement establishing an Agreement Reserve Account, means the amount, if any, required by such Agreement to be allocated to an Agreement Reserve Account (relating to such Agreement) within the Agreement Reserve Fund.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax Exempt Bonds.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
CATEGORY I	100%
CATEGORY II	80%
CATEGORY III	50%
CATEGORY IV	0%

"Authorized Denominations" means, with respect to the 2006B Bonds, $5,000 or any integral multiple thereof and with respect to the Loans that are subject to the Sixty-Sixth Supplemental Indenture, $5,000 and any other dollar amount in excess of $5,000.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary or Treasurer, and when used with reference to any act or document also means any other person authorized by resolution of the NMFA to perform such act or execute such documents; (ii) in the case of a Governmental Unit, means the person or persons authorized by resolution or ordinance of the Governmental Unit to perform any act or execute any document; and (iii) in the case of the Trustee or the Paying Agent any person authorized to perform any act or sign any document by or pursuant to the bylaws or any resolution of the governing body of the Trustee or the Paying Agent, respectively.

"Beneficial Owner" means, while DTC or its nominee is the registered owner of the Series 2006B Bonds, any person entitled to receive payment of principal of, premium, if any, and interest on 2006B Bonds and otherwise exercise ownership rights with respect to Series 2006B Bonds.

"Bond Counsel" means nationally recognized bond counsel experienced in matters of municipal law, satisfactory to the Trustee and listed in the list of municipal bond attorneys, as published semiannually by *The Bond Buyer*, or any successor publication.

"Bond Documents" means collectively, the Loan Agreements, the Grant Agreements, the Securities, the Security Documents, and the Indenture.

"Bond Fund" means the fund by that name established by the Indenture to be held by the Trustee and used to pay amounts due on the Bonds.

"Bond Fund Year" means a twelve-month period commencing June 2 of each year and ending on the next succeeding June 1.

"Bond Registrar" or "Registrar" means the Trustee or any other registrar appointed under the Indenture.

"Bonds" means all Bonds issued and secured under the Indenture.

"Business Day" means any day, other than a day on which banks located in New York, New York or the cities in which the Principal Offices of the Trustee or the Paying Agent are located are required or authorized by law or executive order to close, or on which the New York Stock Exchange is closed.

"Cash Flow Statement" means an NMFA certificate (a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans and Grants or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate:

(A) the amount of NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(B) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(C) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding;

and (b) showing that in each such Bond Fund Year, the aggregate of the amount set forth in clause (A) of the definition divided by 1.35, plus the aggregate amount set forth in clause (B) of the definition, exceeds 100% of the aggregate of the amounts set forth in clause (C) of the definition.

For purposes of the foregoing definition the following assumptions will apply:

(i) NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12-month period in the 24 months next preceding the delivery of the Cash Flow Statement;

(ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(iii) Loans and Additional Pledged Loans will be assumed to remain in their then-current category designations throughout the period projected in the Cash Flow Statement.

"Category I Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in at least the third highest full rating category or higher by the Rating Agencies.

"Category II Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agencies.

"Category III Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are not designated or rated or are designated or rated below the fourth highest full rating category by the Rating Agencies, but excluding Category IV Loans and Additional Pledged Loans.

"Category IV Loans and Additional Pledged Loans" means all Nonperforming Loans and Additional Pledged Loans and Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been fully replenished in accordance with the related Agreement or loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agencies.

"Cede" means Cede & Co. and any substitute nominee of DTC who becomes the Registered Owner of any 2006B Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and the applicable regulations thereunder.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the NMFA and the Trustee dated the date of issuance and delivery of the Series 2006B Bonds, as originally executed as it may be amended from time to time in accordance with the terms thereof.

"Covenant Default" has the meaning, if any, given in any Loan Agreement, Securities or Additional Pledges Loan.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York.

"Expense Fund" means the fund by that name established by the Indenture to be held by the Trustee.

"Funds and Accounts" means collectively, the Debt Service Fund and the Accounts created in the Indenture, the Agreement Reserve Fund and the Accounts created therein, the Program Fund and the Accounts created therein, the Expense Fund, the Rebate Fund and the Accounts created therein, the Revenue Fund, and the Bond Fund.

"Governmental Obligations" means direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Governmental Units" means any "qualified entity" under the Act which has executed and delivered to the NMFA a Loan Agreement, Grant Agreement or Securities for the purpose of financing all or a portion of a Project.

"Grant Agreements" means a grant or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and does not require payments by the Governmental Unit to be made thereunder.

"Grants" means collectively, the Grants made pursuant to the Grant Agreements.

"Indenture" means the General Indenture of Trust and Pledge and all Supplemental Indentures thereto as the same may be amended and supplemented.

"Interest Component" means the portion of each Loan Payment representing interest on the related Loan.

"Interest Payment Date" means, with respect to the Series 2006B Bonds, each June 1 and December 1, commencing December 1, 2006.

"Loan Agreement" means a loan or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and requires the Governmental Unit to repay the amounts advanced.

"Loan Payment" means the payments made by each Governmental Unit pursuant to the provisions of a Loan Agreement or Securities and which are to be used in accordance with the Indenture.

"Loan Payment Date" means the date specified in each Loan Agreement or Securities as the due date for Loan Payments.

"Loans" means collectively, the Loans made pursuant to the Loan Agreements and the Securities; excluding, however, all Additional Pledged Loans. Loans and Additional Pledged Loans may be evidenced by the same document containing two or more separate obligations.

"NMFA Portion of the Governmental Gross Receipts Tax" means an amount equal to 75% of the net receipts attributable to the governmental gross receipts tax levied pursuant to Section 7-9-4.3, NMSA 1978, as amended, and distributed to the NMFA pursuant to Section 7-1-6.38, NMSA 1978, as amended.

"Nonperforming Loans and Additional Pledged Loans" means Loan Agreements and Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a Covenant Default) or under which a delinquency exists in payments of principal or interest thereunder.

"Original Issue Date" means, with respect to the Series 2006B Bonds, the date of delivery thereof.

"Outstanding" or "Bonds outstanding" mean all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) any Bond (or any portion thereof) (i) for the payment or redemption of which there will be held in trust under the Indenture and set aside for such payment or redemption, moneys and/or Governmental Obligations (not callable at the option of the issuer thereof) maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Governmental Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or redemption price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which will be given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

(c) Bonds deemed paid pursuant to the provisions of the Indenture; and

(d) Bonds in lieu of which others have been authenticated pursuant to the Indenture.

"Participants" means underwriters, securities brokers and dealers, banks and trust companies, clearing corporations and other persons from time to time for which DTC or any successor Securities Depository holds Series 2006B Bonds as Securities Depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Paying Agent," when used with respect to the Series 2006B Bonds, means the person or persons authorized by the NMFA to pay the principal of, premium, if any, and interest on, the Series 2006B Bond on behalf of the NMFA, and initially is the Trustee.

"Permitted Investments" (i) with respect to the investment of the respective Accounts of the Program Fund, the Agreement Reserve Fund and the Debt Service Fund has the meaning set forth in each Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Expense Fund and the Rebate Fund or any other fund created under the Indenture, the following to the extent permitted by New Mexico law:

(a) Governmental Obligations;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);

(i) *Farmers Home Administration* (FmHA) Certificates of Ownership;

(ii) *Federal Housing Administration* (FHA) Debentures;

(iii) *General Services Administration* Participation certificates;

(iv) *Government National Mortgage As*sociation (GNMA or "Ginnie Mae") GNMA guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates);

(v) *US. Maritime Administration* Guaranteed Title Xl financing;

(vi) *U.S. Department of Housing and Urban Development* (HUD) Project Notes and Local Authority Bonds;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself;

(i) *Federal Home Loan Bank System* Senior debt obligations (Consolidated debt obligations);

(ii) *Federal Home Loan Mortgage Corporation* (FHLMC or "Freddie Mac") rated AAA by Standard & Poor's and Aaa by Moody's. Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) *Federal National Mortgage Association* (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) *Student Loan Market Association* (SLMA or "Sallie Mae") Senior debt obligations;

(v) *Resolution Funding Corp.* (REFCORP). Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in bookentry form are acceptable;

(vi) *Farm Credit System* Consolidated systemwide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAmG", "AAAm" or "Aam" or by Moody's of "Aaa" including funds from which the Trustee or its affiliates revenue fees for investment advisory or other services to such funds.

(e) Certificates of deposit ("CD") secured at all times by collateral described in (a) and/or (b) above. CD's must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P, and "Prime-1" or better by Moody's. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

(g) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1+" by S&P;

(j) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the NMFA by the Rating Agencies;

(k) Investment contracts with providers the long term, unsecured debt organization of which are rated at least “A” by the Rating Agencies; and

(l) deposits with the Treasurer of the State for investment in obligations described above.

“Prepayment” means the amount paid by a Governmental Unit pursuant to the provisions of its Loan Agreement or Securities as a prepayment of all or a portion of the principal balance due under its Loan Agreement or a prepayment of the principal amount of the Securities.

“Principal Component” means the portion of each Loan Payment representing principal on the related Loan.

“Program” means the NMFA's public project revolving fund program.

“Program Costs” means the fees and expenses payable to the Trustee, any Paying Agent and the NMFA.

“Program Fund” means the fund by that name which is created and established by the Indenture.

“Projects” means, collectively, the projects (i) authorized by the Legislature for financing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture and a Loan Agreement, Grant Agreement or Securities.

“Public Project Revolving Fund” means the public project revolving fund established pursuant to the Act.

“Purchasers” means, with respect to the Series 2006B Bonds, RBC Capital Markets, Cabrera Capital Markets, Inc. and Ramirez & Co., Inc.

“Rating Agencies” means Moody's Investors' Service, Inc., Standard & Poor’s Ratings Group and Fitch Ratings or their successors and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

“Rebate Calculation Date” means, with respect to each Series of Bonds, the interest payment date next preceding the fifth anniversary of the issue date of such Series of Bonds, each fifth anniversary of the Initial Rebate Calculation Date for such Series of Bonds, and the date of retirement of the last bond for such Series.

“Rebate Fund” means the Fund so designated, which is created and established by the Indenture.

“Rebate Requirement” means the amount of arbitrage profits earned from the investment of gross proceeds of the Bonds in nonpurpose investments described in Section 148(0(2) of the Code and defined as “Rebate Amount” in Section 1.148-3 of the Treasury Regulations, which are payable to the United States at the times and in the amounts specified in Section 148(0(3) of the Code and Section 1.148-3 of the Treasury Regulations.

“Register” means the record of ownership of the Series 2006B Bonds maintained by the Registrar.

“Registered Owner” or “Bond Owner” or “Owner” or “Bondholder” or “Holder” means the person or persons in whose name or names a Bond will be registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture.

“Regular Record Date” means the fifteenth (15th) day immediately preceding each Interest Payment Date (or the Business Day immediately preceding such fifteenth (15th) day, if such fifteenth (15th) day is not a Business Day).

“Representation Letter” means the blanket representations letter from the NMFA to DTC in substantially the form attached to the Sixtieth Supplemental Indenture of Trust as Exhibit “B.”

"Revenue Fund" means the Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund so designated, which is created and established by the Indenture to be held by the Trustee.

"Revenues" means (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund).

"Securities" means the securities purchased or acquired by the NMFA in consideration for a Loan made pursuant to the Indenture.

"Securities Depository" means the person who operates the computerized book entry system through which ownership interest in the Series 2006B Bonds may be recorded. Such entity shall at all times be a registered clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and in good standing thereunder.

"Security Documents" means the intercept agreements or other security documents delivered by Governmental Units to provide additional security for a Loan Agreement or Securities.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefore.

"Series l995A-B Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1995A, in an initial aggregate principal amount of $41,230,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 1995B, in an initial aggregate principal amount of $4,000,000.

"Series 2000A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2000A, in an initial aggregate principal amount of $4,715,000.

"Series 2004B Bonds" means the Series 2004B-1 Bonds and the Series 2004B-2 Bonds.

"Series 2004C Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004C, bearing interest at the rates herein described and in the aggregate principal amount of $168,890,000.

"Series 2005A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2005A, in an initial aggregate principal amount of $19,015,000.

"Series 2005B Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2005B, in an initial aggregate principal amount of $13,500,000.

"Series 2006B Bonds" means the Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006B, in an initial aggregate principal amount of $38,260,000.

"Special Record Date" means a special record date established pursuant to the Indenture. "State" means the State of New Mexico.

"Supplemental Indenture" means any supplemental indenture approved by the NMFA in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture.

"Trust Estate" means the property held in trust by the Trustee pursuant to the Granting Clauses of the Indenture.

"Trustee" means Bank of Albuquerque, N.A., Albuquerque, New Mexico and its successors and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Trustee at the time serving as successor Trustee under the Indenture.

THE INDENTURE

Registration and Exchange of Bonds

Books for the registration and for the transfer of the Bonds will be kept by the Trustee which is appointed the Bond Registrar with respect to the Bonds. Any Bond may, in accordance with its terms, be transferred only upon the registration books kept by the Bond Registrar, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Registrar, duly executed. No transfer will be effective until entered on the registration books kept by the Registrar. Upon surrender for transfer of any fully registered Bond at the principal corporate trust office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing and satisfactory to the Trustee, the NMFA will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees a new, fully registered Bond or Bonds for a like aggregate principal amount. Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series and the same maturity. The execution by the NMFA of any Bond of any authorized denomination will constitute full and due authorization of such denomination, and the Trustee will thereby be authorized to authenticate and deliver such Bond. The NMFA and the Trustee will not be required to transfer or exchange any Bond of a particular Series (i) during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date, (ii) during the period from and including the day fifteen days prior to any Special Record Date, to and including the date of the proposed payment pertaining thereto, (iii) during the period from and including the day fifteen days prior to the mailing of notice calling any Bonds of a particular Series for redemption, to and including the date of such mailing, or (iv) at any time following the mailing of notice calling such Bond for redemption.

The NMFA, the Bond Registrar and the Paying Agent may treat and consider the person in whose name each Bond is registered on the registration books kept by the Registrar as the holder and absolute owner thereof for the purpose of receiving payment of, or on account of, the principal or redemption price thereof and interest due thereon and for all other purposes whatsoever, and neither the NMFA, nor the Bond Registrar nor the Paying Agent will be affected by any notice to the contrary. Payment of or on account of either principal of or interest on any Bond will be made only to or upon order of the Registered Owner thereof or such person's legal representative, but such registration may be changed as hereinabove provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

The Trustee will require the payment by the Registered Owner requesting exchange or transfer, only of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

Nonpresentment of Bonds

In the event that any Bond are not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond are made available to the Trustee for the benefit of the holder or holders thereof, all liability of the NMFA to the holder thereof for the payment of such Bond will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds, without liability to the holders of such Bonds for interest thereon, for the benefit of the holder of such Bond who will thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond. Moneys so deposited with the Trustee which remain unclaimed four (4) years after the date payment thereof becomes due will, to the extent authorized by applicable law, at the request of the NMFA and if the NMFA is not at the time to the knowledge of the Trustee in default with respect to any covenant contained in the Indenture and if to the knowledge of the Trustee there has been no Event of Default, be repaid to the NMFA and the Owners of the Bonds for which the deposit was made will thereafter be limited to a claim against the NMFA; provided that the Trustee, before making payment to the NMFA, may cause a notice to be given to the Owners of the Bonds at their registered addresses, stating that the moneys remaining unclaimed will be returned to the NMFA after a specified date. Upon payment of such amounts to the NMFA by the Trustee, the NMFA will deal with such money as required by applicable law.

Covenants of the NMFA

The NMFA will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or Supplemental Indenture or in any Bond, including the following covenants and agreements:

Covenant Against Creating or Permitting Liens. Except for the pledge of the Trust Estate to secure payment of the Bonds, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto; provided, however, that (i) nothing contained in the Indenture will prevent the NMFA from issuing, if and to the extent permitted by law, indebtedness having a lien on the Trust Estate subordinated to that of the Bonds and (ii) Revenues constituting NMFA Portion of the Governmental Gross Receipts Tax and payments of Additional Pledged Loans not needed for payments under the Indenture in any Bond Year may be released to the NMFA free and clear of the lien as provided in the Indenture.

Existence; Compliance with Laws. The NMFA will take no action to discontinue maintenance of its existence nor to impair its rights, powers, privileges, and franchises, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements, and directions of any legislative, executive, administrative, or judicial body which may relate to the execution and delivery of the Bonds and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Grant Agreements, Security Documents and Securities; Exceptions, Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Grant Agreements, Security Documents and Securities except as specifically authorized in the Indenture in furtherance of the security for the Bonds; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan Agreement, Grant Agreement, Securities, or Additional Pledge Loan and complied with the other provisions thereof, the NMFA and the Trustee may release such Agreement or Additional Pledge Loan and any Security Documents from the pledge created under the Indenture; and (ii) the NMFA may direct the release of any Agreement or Additional Pledged Loan from the lien and pledge of the Trust Estate under the Indenture upon the delivery to the Trustee of a Cash Flow Statement reflecting such release. Except to the extent otherwise provided in the Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners may be impaired and will, from time to time, execute and deliver such further instruments and will take such further action as may be required to carry out the purposes of the Indenture.

Financing Statements. The NMFA and the Trustee will cause the Indenture to be filed as a financing statement with the Secretary of State of the State, in such manner and at such places as may be required by law fully to protect the security interest of the Owners in the Bonds and the right, title, and interest of the Trustee in and to the Trust Estate. From time to time, the Trustee may, but will not be required to, obtain an opinion of counsel setting forth what, if any, actions by the NMFA or Trustee should be taken to preserve such security. The NMFA will execute or cause to be executed any and all further instruments as may reasonably be requested by the Trustee for such protection of the interests of the Registered Owners, and will furnish satisfactory evidence to the Trustee that such actions have been taken and will take such other action as is necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds executed and delivered under the Indenture has been paid. The Trustee will execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as it may be advised by an opinion of Counsel may be necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the Principal of and interest on the Bonds have been paid.

Rights Under Loan Agreements; Grant Agreements, Security Documents and Securities. The Loan Agreements, Grant Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions of the Indenture, the Loan Agreements, Grant Agreements, Security Documents and Securities may not be effectively amended, changed, modified, altered or terminated without the prior written consent of the Trustee in accordance with the Indenture, and reference is made to the same for a detailed statement of said covenants and obligations of the Governmental Units thereunder.

Bonds to be Tax-Exempt Obligations. The NMFA covenants and agrees to and for the benefit of the Owners of Bonds that the NMFA (i) will not take any action that would cause interest on the Bonds to become subject to federal income taxation, (ii) will not omit to take or cause to be taken, in timely manner, any action, which omission would cause the interest on the Tax-exempt Bonds to become subject to federal income taxation, and (iii) will, to the extent possible, comply with any other requirements of federal tax law applicable to the Bonds in order to preserve the exemption from federal income taxation of interest on the Bonds. The provisions of this paragraph do not apply to Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

State Pledge of Non-Impairment. The State has pledged to and agreed with the Bondholders (as an obligation issued under the Act) that the State will not limit or alter the rights vested in the NMFA under the Act to fulfill the terms of the Indenture with the Bondholders or in any way impair the rights and remedies of those holders until the Bonds together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Deposit and Advance of Funds

The NMFA and the Trustee will deposit the proceeds of the Bonds to the Accounts created under the Indenture and will make the advances of funds thereunder to fund the Program and the NMFA will enter into the Loan Agreements and Grant Agreements with the Governmental Units and purchase and receive the Securities and Security Documents from the Governmental Units on the terms and conditions and upon submission of the documents as provided in the Indenture.

Loan Agreement and Securities - Loan Payments

The Loan Payments will be governed by the following provisions:

(a) Principal, Program Costs and Interest Components. A portion of each Loan Payment is paid as, and represents payment of, interest (the "Interest Component") on the related Loan and payment of a Program Cost component relating to each loan (the "Program Cost Component") and the balance of each Loan Payment is paid as, and represents payment of, principal (the "Principal Component") on the related Loan, all as set forth in the related Loan Agreement or Securities. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on each Loan Payment Date. The Interest Component of Loan Payments for each Loan Agreement will be the amount of interest based on a 360-day year comprised of twelve 30-day months, unless otherwise specified in the related Supplemental Indenture. The Program Cost Component may be included in the interest rate borne by a Loan.

(b) Loan Agreement and Securities Term. The "Term" of a Loan Agreement or Securities will be defined in the Loan Agreement or Securities. The Term will not exceed the useful life of the Project financed pursuant to the related Loan Agreement or Securities.

(c) Agreement Payment. Each Loan Agreement and Security will provide that the related Governmental Unit will pay Loan Payments directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less a 0.25% administration fee retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date. In the case of Securities, the Securities will be registered in the name of the Trustee or properly assigned to the Trustee on the books of any registrar for such Securities or, if in bearer form delivered to and held by the Trustee.

(d) Prepayments. The Loan Agreements and Securities may contain a provision permitting the Governmental Unit to prepay the Principal Component of the Loan Payments, in accordance with the provisions of the Loan Agreement and Securities by payment of Prepayments in whole on any date or in part on any Interest Payment Date, at any time when the related Series of Bonds are or are about to become subject to optional redemption upon not less than forty-five (45) days' prior written notice to the Trustee and subject to any other conditions set forth in the related Supplemental Indenture, Loan Agreement or Securities. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination. Each Prepayment will include interest to the date upon which the Trustee has scheduled a related redemption of Bonds as provided in the related Supplemental Indenture.

(e) Use of Reserve at Final Payment. At the time of payment in full of each Loan Agreement or Securities, the applicable Agreement Reserve Account in the Agreement Reserve Fund will be applied toward the final payment of amounts due under the related Loan Agreement or Securities.

Establishment of Funds and Accounts

There is established in the Indenture with the Trustee the following funds and accounts within funds, each of which will be held, for the term of the Indenture, in Accounts segregated from all other moneys of the Trustee or the NMFA.

(a) a Program Fund and within such fund a separate Account for each Agreement;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement, which separate Account is established and maintained by the NMFA;

(c) a Bond Fund;

(d) an Agreement Reserve Fund and within such fund, a separate Account for each Agreement which contemplates the establishment of an Agreement Reserve Account;

(e) an Expense Fund;

(f) a Rebate Fund and within such fund a separate Account for each Agreement; and

(g) a Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund (the "Revenue Fund") established as an account of the Public Project Revolving Fund.

In addition to the foregoing, with respect to Additional Pledged Loans the Trustee may, as directed in a Supplemental Indenture, establish sub accounts within the Program Fund, the Agreement Reserve Fund or the Debt Service Fund for such Additional Pledged Loans.

Flow of Funds

All Funds will be accounted for and maintained by the NMFA in the Funds and Accounts established in the Indenture. Each Fund and Account will be kept separate and apart from all other Funds and Accounts of the NMFA. The Funds will be expended and used by the Trustee and the NMFA only in the manner of order and priority specified below:

Program Fund. Upon the issuance of a Series of Bonds the Trustee will deposit an amount specified in the related Supplemental Indenture in the Program Fund and will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement. Disbursements from each Account within the Program Fund may be made in stages. Disbursements from each Account within the Program Fund with respect to an Agreement with a Governmental Unit will (except for amounts to be used for capitalized interest on the Loan and as may be directed in a Supplemental Indenture with respect to Grants) only be made upon the delivery to the Trustee of a requisition substantially in the form attached to each Agreement signed by an Authorized Officer of the Governmental Unit.

Application of Loan Payments. The flow of funds is discussed in the forepart of this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds."

Pursuant to the Supplemental Indenture authorizing the Series 2000A Bonds, the payments required to be made by the 2000A Governmental Unit pursuant to the 2000A Agreement are to be paid directly to the Trustee from the New Mexico Taxation and Revenue Department pursuant to an Intercept Agreement between NMFA and the 2000A Governmental Unit, and the Trustee is to deposit all such payments immediately upon receipt thereof as follows:

(i) moneys identified by the NMFA as being from the receipt of the Correctional Facility Tax will be deposited into the Series 2000A Correctional Facility Tax Account and moneys identified by the NMFA as being from the receipt of the 2000A Governmental Unit Gross Receipts Tax will be deposited into a Series 2000A Governmental Unit Gross Receipts Tax Account, both in the Series 2000A Tax Revenue Fund;

(ii) moneys on deposit in the Series 2000A Correctional Facility Tax Account will be applied as follows:

First: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent moneys are available for such purpose, to the payment of Program Costs;

Third: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Agreement Reserve Fund until such time as the balance on deposit in said Account equals the Agreement Reserve Requirement of such Account; and

Fourth: to the extent moneys are available for such purpose, to the Series 2000A Correctional Facility Tax Redemption Fund to annually redeem Series 2000A Bonds on or as soon as is reasonably practicable after June 2 from moneys deposited prior to the preceding June 1 in accordance with the Supplemental Indenture. Any excess Correctional Facility Tax revenues not applied to redemption will be returned to the 2000A Governmental Unit Debt Service Account.

(iii) moneys on deposit in the Series 2000A Governmental Unit Gross Receipts Tax Account will be applied as follows:

First: to the extent moneys from the Series 2000A Correctional Facility Tax Account deposited into the 2000A Governmental Unit Debt Service Account and the 2000A Governmental Unit Agreement Reserve Account in the Agreement Reserve Fund are insufficient to meet the then required principal and interest payments due or to next become due with respect to the 2000A Agreement, to the 2000A Governmental Unit's Debt Service Account the amount necessary to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent money from the Series 2000A Correctional Facility Tax Account are insufficient to pay the 2000A Governmental Unit's share of Program Costs, an amount necessary to pay such Program Costs; and

Third: to the 2000A Governmental Unit, the balance of the moneys remaining in the Series 2000A Governmental Unit Gross Receipts Tax Account as soon as reasonably practicable after June 2 of each year.

All income earned from the investment of moneys in the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement), will be deposited in the related Account of the Debt Service Fund and applied as a credit to the Loan Payment next coming due under the Agreement, provided, however, that all earnings received on the Governmental Unit's Accounts will be allocated solely to the benefit of such Governmental Unit. The Trustee will notify the Governmental Unit at least fifteen (15) days prior to the due date of its next payment of Loan Payments of the amount of earnings so allocated.

In the event that the Trustee receives Prepayments under a Loan Agreement or Securities, the Trustee will apply such Prepayments to the mandatory redemption of the Bonds or portions thereof in accordance with the related Supplemental Indenture, except with respect to the Series 2004B and each series of Bonds issued thereafter, which are subject to the provisions of the Indenture discussed in the forepart of this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Application of Loan Prepayments."

At least once a year the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) to pay the Governmental Unit's share of Program Costs for the year, and will return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; provided, however, that with respect to Loans relating other than to the Series 2000A Bonds, any such excess will be disbursed as follows:

(a) Any excess attributable to earnings on funds and accounts for the Governmental Unit will be returned to the Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; and

(b) Any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the relevant Bonds will be deposited into the Revenue Fund; and, provided further, however, that with respect to the Series 2000A Loan Agreement, any such excess will be disbursed as provided in the second paragraph under this heading "Application of Loan Payments" above.

Amounts on deposit in the respective Account of the Agreement Reserve Fund in excess of the related Agreement Reserve Account Requirement will be transferred at least annually to the related Accounts of the Debt Service Fund and credited against payments next coming due under such Loan Agreement or Securities.

Amounts on deposit in the respective Account of the Agreement Reserve Fund will be applied toward the final payment of amounts falling due under the related Loan Agreement or Securities.

As provided in an Agreement, a Governmental Unit may (i) fund an Account in the Agreement Reserve Fund over time from deposits made by or on behalf of the Governmental Unit or (ii) may use any reserve fund surety or similar investments in lieu of a cash deposit to the Agreement Reserve Fund.

Amounts on deposit in each Agreement Reserve Account, if any, secure only the payments to be made under the related Agreement and may not be applied toward payments under any other Agreement or toward payment of the Bonds, except to the extent that amounts are due and owing under the related Agreement and amounts are not otherwise available for such payments in related Account of the Debt Service Fund.

All moneys held by the Trustee in the Bond Fund will be applied in accordance with the Indenture to pay the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and the interest on Bonds as it becomes payable. There will be deposited into the Bond Fund all accrued interest received, if any, at the time of the execution, sale and delivery of the Bonds.

Amounts remaining on deposit in the Bond Fund at the end of each Bond Fund Year and after payment of all amounts due on the Bonds for such Bond Fund Year will be transferred to the Revenue Fund.

Investment of Moneys

Any moneys held as part of a Governmental Unit's Account in any of the Funds established under the Indenture will be invested and reinvested by the Trustee at the direction of the related Governmental Unit in Permitted Investments in accordance with the following provisions.

Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due. In the absence of an appropriate direction from a Governmental Unit as to investment of funds, the Trustee will invest and reinvest such amounts in a daily money market fund which invests only in United States Government Obligations.

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established under the Indenture or (ii) by the NMFA as agent for the Trustee will be invested and reinvested by the NMFA or the Trustee, as the case may be, at the direction of the related Governmental Unit in Permitted Investments as directed by the Loan Agent or the Securities and in accordance with the following provisions.

The Trustee or the NMFA will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund or the Bond Fund will be invested and reinvested by the Trustee at the direction of the NMFA only in Permitted Investments in accordance with the Indenture. Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of the investments on deposit in the Bond Fund whenever the cash balance in the Bond Fund is insufficient to pay the principal of and premium, if any, and interest on the Bonds when due.

All such investments will at all times be a part of the account or fund from where the money used to acquire such investments was deposited and all gains thereon will be credited to, and losses thereon will be charged against, such accounts or funds except as expressly provided to the contrary in the Indenture.

All investments will mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the owner on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

The principal of the investments and the interest, income, and profits received in respect thereof will be applied as follows:

(i) all interest, income, and profits received in respect of the investment of the amounts on deposit in a Governmental Unit's Account in any of the Funds established under the Indenture will (after deduction of any losses) be retained in the applicable Governmental Unit's Account from which the investment was derived (except as otherwise required with respect to the Agreement Reserve Fund and deposits to be made to the Rebate Fund); and

(ii) all interest, income, and profits received in respect of the investment of the amounts on deposit in the Revenue Fund, the Rebate Fund or the Bond Fund will (after deduction of any losses) be retained in such Fund; and

(iii) whenever any other transfer or payment is required to be made from any particular Fund or Account, such transfer or payment will be made from such combination of maturing principal, redemption, or repurchase prices, liquidation proceeds, and withdrawals of principal as the Trustee deems appropriate for such purpose, after taking into account such factors as future transfers or payments from the Fund or Account in question, the reinvestment opportunities for maturing principal, the current yield on any permitted investments to be redeemed, withdrawn, or sold, and any penalties, gains, or losses to be realized upon any such redemption, withdrawal, or sale.

The Trustee will not be accountable for any depreciation in the value of the Permitted Investments or any losses incurred upon any authorized disposition thereof.

Method and Frequency of Valuation. In computing the amount in any Fund or account, Permitted Investments will be valued at least annually at cost, including commissions and accrued interest but excluding interest accrued following acquisition.

Defeasance

When there has been paid, or provisions for payment have been made to or for the holders and Owners of the Bonds, the principal of and premium, if any, and interest due or to become due on the Bonds at the times and in the manner stipulated therein, and if there has been paid to the Trustee and any paying agents all sums of money due or to become due according to the provisions of the Indenture, then the estate and rights granted by the Indenture will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture and on demand of the NMFA will execute such documents to evidence such release as will be reasonably required by the NMFA and will turn over to the NMFA all balances held by the Trustee under the Indenture (other than amounts required for return to the Governmental Units as provided in the Indenture).

Any Bond will be deemed to be paid within the meaning of and for all purposes of the Indenture when (a) payment of the principal of and the applicable premium, if any, on such Bond, whether at maturity or prior redemption plus interest thereon to the due date thereof, either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent has irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment, and/or (2) noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond is deemed to be paid under the Indenture, as aforesaid, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or noncallable Governmental Obligations.

Notwithstanding anything in the Indenture to the contrary, all moneys so deposited with the Trustee (or other escrow agent) as provided in the defeasance provisions of the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amount and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys have been so deposited, will be deposited in the Revenue Fund as and when realized and collected for use and application as are other moneys deposited in that fund.

All moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the defeasance provisions of the Indenture for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and noncallable Governmental Obligations have been so set aside in trust.

Neither the obligations nor the moneys deposited with the Trustee (or other escrow agent) pursuant to the defeasance provisions of the Indenture will be withdrawn or used for any purpose other than, and will be segregated and held in trust for, the payment of the principal or redemption price of, and interest on, the Bonds or portions thereof.

Whenever moneys or obligations are deposited with the Trustee (or other escrow agent) for the payment or redemption of any Bonds more than sixty (60) days prior to the date that such Bonds are to mature or be redeemed, the Trustee will mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held, to all Owners of Bonds for the payment of which such moneys or obligations are being held.

Notwithstanding anything in the Indenture to the contrary, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the defeasance provisions of the Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture will be made without the consent of the Registered Owner of each Bond affected thereby.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on any Series of Bonds is paid by a bond insurer with respect to such Series of Bonds pursuant to a municipal bond insurance policy, the Bonds of such Series will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the NMFA, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the NMFA to the Registered Owners and related Security Instrument Issues of such Series of Bonds will continue to exist and will run to the benefit of such bond insurer, and such bond insurer will be subrogated to the rights of such Registered Owners and related Security Instrument Issues of such Series of Bonds.

Default Provisions and Remedies of the Trustee and Owners

Events of Default Defined. Each of the following events is an "Event of Default" under the Indenture:

(a) if payment of any installment of interest on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable; or

(b) if payment of the principal of or the redemption premium, if any, on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any fund hereunder or otherwise; or

(c) if the NMFA is for any reason rendered incapable of fulfilling its obligations under the Indenture; or

(d) if an order or decree is entered, with the consent or acquiescence of the NMFA, appointing a receiver or custodian for any of the Revenues of the NMFA, or approving a petition filed against the NMFA seeking reorganization of the NMFA under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the NMFA will not be vacated or discharged or stayed on appeal within 30 days after the entry thereof, or

(e) if any proceeding is instituted, with the consent or acquiescence of the NMFA, for the purpose of effecting a composition between the NMFA and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Revenues; or

(f) if (i) the NMFA is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the NMFA, a receiver, Trustee or custodian of the NMFA or of the whole or any part of their property and any of the aforesaid adjudications, orders, judgments or decrees is not vacated or set aside or stayed within 60 days from the date of entry thereof; or

(g) if the NMFA files a petition or answer seeking reorganization, relief or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the NMFA or of the whole or any substantial part of the property of the NMFA, and such custody or control is not terminated within 30 days from the date of assumption of such custody or control; or

(i) if the NMFA defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture or any Supplemental Indenture on the part of the NMFA to be performed, other than as set forth above in this section and such Default continues for 30 days after written notice specifying such Event of Default and requiring the same to be remedied has been given to the NMFA by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Remedies of the Trustee. If an Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce the rights of the Owners of the Bonds under the Indenture, including enforcing any rights under the Agreements and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds against the NMFA and any related Governmental Unit, and compel the NMFA and any related Governmental Unit, to perform or carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Indenture or in any Agreement (including the appointment of a receiver); or

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) intervene in judicial proceedings that affect the Bonds, the Agreements, or the security therefor; or

(d) exercise any or all remedies permitted under the Agreements or Security Documents; or

(e) cause the NMFA or any related Governmental Unit to account as if it were the Trustee of an express trust for all of the Revenues or Agreement Pledged Revenues, pledged under the Indenture or pursuant to the Agreements and any Security Documents.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by the Indenture may be enforced and exercised from time to time and as often as may be deemed expedient by the Trustee or the Owners.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners, the NMFA, and the Governmental Units will be restored to the former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Owners under the Indenture is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be extended without exhausting and without regard to any other remedy conferred by any law.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and the performance of the other agreements and covenants required to be performed by it contained in the Agreements and Security Documents, the Governmental Units will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Loan Payments, by the Trustee, or with respect to the performance by the NMFA of any right or obligation required to be performed by it contained in the Indenture or for the performance by any other Governmental Unit of such other Governmental Unit's obligations under an Agreement or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, for the appointment of a receiver or Trustee or for any other remedy, at law or in equity, unless:

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default; (b) the Owners of not less than a majority of the aggregate principal amount of the Bonds Outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;

(c) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

No one or more Owners has any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Bond Owners. Notwithstanding the foregoing, the Owner of any Bond has the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms of the Bonds and the Indenture and the principal of such Bond at the stated maturity of the Bonds and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights will not be impaired without the consent of such Owner.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee, provided that such direction is not in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Owners of Bonds.

Application of Funds Upon Default. All moneys received by the Trustee or by any receiver pursuant to any right given or action taken under the default provisions of the Indenture or under the provisions of the related Agreements, will, after payment of the reasonable costs and fees of, and the reasonable expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and all moneys so deposited during the continuance of an Event of Default (other than moneys deposited to the Bond Fund for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default), together with all moneys in the Funds maintained by the Trustee or the NMFA under the Indenture, will be applied as follows:

(a) Unless the principal of all Bonds shall have become due and payable, all such moneys will be applied, as follows:

First: To the payment to the persons or entity entitled thereto of all installments of interest then due on the Bonds, in the order of maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons or entity entitled thereto without any discrimination or privilege;

Second: To the payment to the persons or entity entitled thereto of the unpaid principal of and any of the Bonds which have become due (other than Bonds called for prepayment for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons or entities entitled thereto without any discrimination or privilege; and

Third: To be held for the payment to the persons entitled thereto as the same become due of the principal of, the premium, if any, and interest on the Bonds which may thereafter become due at maturity and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds becomes due and payable all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with the interest on overdue principal, as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other certificates, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee may determine, having due regard for the amount of such moneys available for such application in the future. Whenever the Trustee applies such moneys it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such date and of the Special Record Date in accordance with the Indenture. The Trustee will not be required to make payment to the holder of any unpaid Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and will do so upon the written request of the Registered Owners of (a) a majority in aggregate principal amount of all the Bonds then outstanding in respect of which Default in the payment of principal and interest exist, or (b) a majority in aggregate principal amount of the Bonds then Outstanding in the case of any other Event of Default; provided, however, that there will not be waived (i) any Event of Default in the payment of the principal of any Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such Event of Default has occurred on overdue installments of interest and all arrears of payments of principal and premium, if any, when due and all expenses of the Trustee, in connection with such Event of Default has been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the NMFA, the Trustee and the Registered Owners will be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any right consequent thereon.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The NMFA and the Trustee may, without consent of, or notice to, any of the Owners enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To provide for the issuance of Additional Bonds in accordance with the provisions of the Indenture;

(b) To cure any ambiguity or formal defect or omission in the Indenture;

(c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;

(d) To subject to the Indenture additional revenues, properties or collateral;

(e) To evidence the appointment of a separate Trustee or paying agent or the succession of a new Trustee or paying agent under the Indenture;

(f) To make any other change which in the judgment of the Trustee is not materially adverse to the interests of the Trustee or any of the Owners;

(g) To make any amendments with the prior written confirmation from of the Rating Agency that such amendments will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; and

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred upon the NMFA in the Indenture or any Governmental Unit or to grant additional powers or rights to the Trustee.

Supplemental Indentures Requiring Consent of Owners. Exclusive of supplemental indentures covered by the foregoing section and subject to the following terms and provisions and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing in this section or in the foregoing section will permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond, or (ii) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indentures, or (v) permit the creation of any lien ranking prior to the lien of the Indenture on the Trust Estate or any part thereof, or (vi) deprive the Owner of any Bond then outstanding of the lien created by the Indenture on the Trust Estate without the prior consent of 100% of the holders of the Bonds affected by such supplemental indenture. The Trustee may, but is not obligated to, enter into any such supplemental indenture which adversely affects the Trustee's rights, duties or immunities under the Indenture or the Agreements.

If at any time the NMFA requests the Trustee to enter into any such supplemental indenture for any of the purposes of this section, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be given by registered or certified mail to the owner of each Bond shown by the list of Owners kept at the office of the Trustee. Such notices will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners. If, within one hundred twenty (120) days or such longer period as the holders of not less than a majority in aggregate principal amount of the Bonds outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Governmental Units from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided, the Indenture will be and be deemed to be modified and amended in accordance therewith.

Amendment of Agreements and Security Documents.

(a) The NMFA will have the right to amend an Agreement and any existing Security Documents with the Consent of the Trustee and the related Governmental Unit without Bond Owners' consent, for one or more of the following purposes:

(i) to add additional covenants of the NMFA or the related Governmental Unit, as applicable, or to surrender any right or power conferred upon the NMFA or the related Governmental Unit;

(ii) to make any amendments with the prior written confirmation from the Rating Agencies that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment;

(iii) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained therein or in any amendment thereto which may be defective or inconsistent with any other provision contained therein or in the Indenture or in any amendment thereto or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under any Agreement, or Security Documents which in the judgment of the Trustee do not adversely affect the interests of the Owners of Bonds; or

(iv) to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

(b) If the NMFA or a Governmental Unit propose to amend an Agreement or related Security Documents in a manner not contemplated by (a) above the Trustee will notify the Owners of the Bonds of the proposed amendment and may consent thereto with the consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding.

Fees, Charges and Expenses of the Trustee

Upon an Event of Default, but only upon an Event of Default, the Trustee will have a right of payment prior to payment on account of interest or principal of, or premium, if any, on any Bond for the Trustee's advances, fees, costs and expenses incurred.

APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic descriptions are furnished for information only. The Bonds do not constitute a general obligation of the State and are special limited obligations of NMFA payable solely from the Trust Estate. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2006B Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State

Generally

The State was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 60% (mornings) to 30% (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from two inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per diem and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the 12th fastest growing state, as the population increased 20.1% from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2%.

Most of this population growth is occurring in or near the large cities. There are four Metropolitan Statistical Areas (MSAs) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and

Valencia Counties; the Las Cruces MSA is in Doña Ana County; the Santa Fe MSA is in Santa Fe County; and the Farmington MSA is in San Juan County. The fastest growing counties in the state are Torrance, Lincoln, Valencia, Sandoval, Catron and Luna.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table presents quarterly average data on employment for the State by industry compiled by the State Department of Labor for the third quarter of 2005.

State of New Mexico
Employment by Industry Group[1]
Third Quarter 2005

Industry	Employment
Agriculture, Forestry, Fishing & Hunting	13,473
Mining	17,166
Utilities	5,717
Construction	58,377
Manufacturing	36,750
Wholesale Trade	23,056
Retail Trade	94,527
Transportation and Warehousing	19,492
Information	15,759
Finance & Insurance	23,045
Real Estate & Rental & Leasing	11,145
Professional & Technical Services	43,286
Management of Companies & Enterprises	5,556
Administrative & Waste Services	46,526
Education Services	71,524
Health Care & Social Assistance	106,906
Arts, Entertainment & Recreation	19,170
Accommodation & Food Services	79,639
Other Services, Except Public Administration	22,436
Public Administration	59,662
Unclassified	713

(1) Employment is categorized using the North American Industry Classification System (NAICS).

Source: New Mexico Department of Labor, April 2006.

State of New Mexico and United States
Wages and Salaries by NAICS Industry Sector
2004-05[1]
(Thousands of Dollars)

	New Mexico		United States	
	2004	2005[2]	2004	2005[2]
Farm Total	$ 173,241	$ 194,000	$ 19,726,000	$ 22,064,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	$ 80,593	$ 82,000	$ 17,213,000	$ 18,328,000
Mining	774,692	915,000	34,806,000	40,809,000
Utilities	225,456	250,000	41,031,000	43,197,000
Construction	1,640,782	1,874,000	292,657,000	319,765,000
Manufacturing	1,465,812	1,548,000	687,534,000	721,873,000
Wholesale Trade	899,181	970,000	305,857,000	327,709,000
Retail Trade	2,152,348	2,278,000	380,235,000	401,704,000
Transportation & Warehousing	729,437	781,000	172,057,000	182,508,000
Information	518,567	564,000	190,644,000	198,783,000
Finance & Insurance	942,346	979,000	422,180,000	443,784,000
Real Estate & Rental & Leasing	296,811	311,000	80,772,000	88,866,000
Professional & Technical Services	2,446,990	2,513,000	449,970,000	489,646,000
Management of Companies & Enterprises	237,959	276,000	136,157,000	146,629,000
Administrative & Waste Services	1,116,330	1,202,000	214,708,000	233,940,000
Educational Services	221,635	245,000	84,793,000	90,872,000
Health Care & Social Assistance	2,742,166	2,942,000	532,315,000	570,123,000
Arts, Entertainment & Recreation	149,797	161,000	56,429,000	58,864,000
Accommodation & Food Services	982,477	1,046,000	169,272,000	181,658,000
Other Services, Except Public Administration	780,615	835,000	169,532,000	178,742,000
Non Farm Government				
Government & Government Enterprises	$ 7,911,645	$ 8,360,000	$ 926,012,000	$ 957,975,000
Non Farm Total	$26,315,639	$28,310,000	$5,364,174,000	$5,695,772,000
TOTAL	$26,488,880	$28,324,000	$5,383,900,000	$5,717,836,000

[1] Revised state personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available state-level source data.
[2] Currently only quarterly data is available for 2005. The annual figures represent the average of the quarterly data rounded to the nearest thousand.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 2006.

State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1996-2005

	Civilian Labor Force		Number Employed		Unemployment Rate		
Year	N.M.	U.S. (000s)	N.M.	U.S. (000s)	N.M.[1]	U.S.[1]	NM as % of U.S. Rate[2]
1996	812,862	133,944	751,826	126,708	7.5%	5.4%	139%
1997	822,627	136,297	768,596	129,558	6.6%	5.0%	135%
1998	835,879	137,673	783,661	131,464	6.2%	4.5%	138%
1999	839,988	139,368	793,052	133,488	5.6%	4.2%	133%
2000	852,293	142,583	810,024	136,891	5.0%	4.0%	125%
2001	863,682	143,734	821,003	136,934	4.9%	4.7%	104%
2002	875,631	144,863	827,303	136,485	5.5%	5.8%	95%
2003	893,118	146,510	840,422	137,736	5.9%	6.0%	98%
2004	914,538	147,401	862,422	139,252	5.7%	5.5%	104%
2005	935,888	149,320	886,724	141,730	5.3%	5.1%	104%

(1) Figures rounded to nearest tenth of a percent.
(2) Figures rounded to nearest whole percent.

Source: U.S. Department of Labor, Bureau of Labor Statistics, April 2006.

State of New Mexico and United States
Per Capita Personal Income
1996-2005[1]

	Per Capita Income			Annual % Change	
Year	New Mexico	U.S.	NM as % of U.S.[2]	New Mexico[3]	U.S.[3]
1996	19,029	24,175	79%	3.3%	4.8%
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77%	4.9%	6.1%
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,134	29,845	74%	5.2%	6.8%
2001	24,085	30,574	79%	8.8%	2.4%
2002	24,246	30,810	79%	0.7%	0.8%
2003	24,892	31,484	79%	2.7%	2.2%
2004	26,184	33,050	79%	5.2%	4.7%
2005[4]	27,644	34,586	80%	5.6%	4.6%

(1) Revised state personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available state-level source data.
(2) Figures rounded to nearest whole percent.
(3) Figures rounded to nearest tenth of a percent.
(4) Preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2006.

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

[Form of Modrall, Sperling, Roehl, Harris & Sisk, P.A. Opinion]

New Mexico Finance Authority
207 Shelby Street
Santa Fe, New Mexico 87501

Bank of Albuquerque, N.A.
Trust Division
201 Third Street, Suite 1400
Albuquerque, New Mexico 87102

Re: New Mexico Finance Authority Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006B

We have acted as bond counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Senior Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2006B in the aggregate principal amount of $38,260,000 (the "Series 2006B Bonds"). The Series 2006B Bonds are being issued to (i) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans"); and (ii) pay costs incurred in connection with the issuance of the Series 2006B Bonds.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 *et seq.*, NMSA 1978, as amended and supplemented (the "Act"). The Series 2006B Bonds are authorized to be issued under and secured by a General Indenture of Trust and Pledge dated June 1, 1995 (the "General Indenture"), as amended and supplemented by a Sixty-Sixth Supplemental Indenture of Trust dated as of May 1, 2006 (together with the General Indenture, the "Indenture") between the NMFA and the Bank of Albuquerque, N.A., Albuquerque, New Mexico (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have reviewed the Indenture, certificates of the Attorney General of the State, as counsel to the NMFA, the NMFA, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, it is our opinion that:

1. The NMFA is a public body politic and corporate, separate and apart from the State, duly organized and validly existing under the laws of the State, and has lawful authority to issue the Series 2006B Bonds.

2. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Trust Estate pledged under the Indenture to secure the payment of the principal of and interest on Series 2006B Bonds subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2006B Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the

Trust Estate and do not constitute a debt or liability of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2006B Bonds and the enforceability thereof and of the Indenture maybe subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Series 2006B Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2006B Bonds or any other offering material relating to the Series 2006B Bonds and we express no opinion relating thereto;

(d) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result; and

(e) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

Respectfully submitted,

[Form of Opinion of Ballard Spahr Andrews & Ingersoll, LLP]

New Mexico Finance Authority
207 Shelby Street
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006B

We have acted as special tax counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006B in the aggregate principal amount of $38,260,000 (the "Series 2006B Bonds"). The Series 2006B Bonds are being issued to (i) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans") and (ii) pay costs incurred in connection with the issuance of the Series 2006B Bonds.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2006B Bonds. The NMFA and the Governmental Units have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2006B Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2006B Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and the Governmental Units with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2006B Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as follows:

1. Interest on the Series 2006B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Under the laws of the State of New Mexico as enacted and construed on the date hereof, interest on the Series 2006B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2006B Bonds; and

(b) although we have rendered an opinion that interest on the Series 2006B Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006B Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006B Bonds.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2006B Bonds. The Series 2006B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2006B Bond certificate will be issued for each maturity of the Series 2006B Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2006B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2006B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations provided details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2006B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2006B Bonds, except in the event that use of the book-entry system for the Series 2006B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2006B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series 2006B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2006B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the NMFA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2006B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Series 2006B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the NMFA or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2006B Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the NMFA does not have responsibility for distributing such notices to the Beneficial Owners.

The NMFA does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2006B Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2006B Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Series 2006B Bonds.

APPENDIX F

OTHER NMFA PROGRAMS AND PROJECTS

Workers' Compensation Administration Building Financing

In 1994, the Legislature authorized the NMFA to sell $6,000,000 in revenue bonds for the acquisition of land and site improvements to the land and the planning, design, construction, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided for the pledge to the NMFA for payment of the revenue bonds associated with the WCA project of a portion of the quarterly Workers' Compensation assessment paid to the State. In July 1995, the NMFA publicly sold $2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold $4,310,000 in long-term bonds to retire the outstanding bonds and to finance the construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

University of New Mexico Health Sciences Center Project

In 1993, the Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of $6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center. These bonds are expected to mature in July, 2006.

In 2003, the Legislature authorized the NMFA to issue up to $60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. In 2005, the Legislature authorized an additional $15 million of revenue bonds. NMFA is authorized to secure the additional bonds by a pledge of funds from the PPRF with a lien priority on the PPRF, as determined by the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA issued the first series of the bonds in an aggregate principal amount of $39,035,000 on April 1, 2004 and a second series of the bonds in an aggregate principal amount of $10,000,000 on September 22, 2004. On August 30, 2005, the NMFA issued the third series in an aggregate principal amount of $23,630,000 and purchased these bonds using proceeds of PPRF Subordinate Lien Revenue Bonds Series 2005E.

Department of Health Projects

Also, in 2005, the Legislature authorized the NMFA to issue another series of revenue bonds secured by a separate distribution of cigarette tax receipts in an aggregate amount not to exceed $39,000,000 for improvements to the southern New Mexico rehabilitation center, the Las Vegas medical center, the Fort Bayard medical center and for purchasing land, building, designing and constructing and equipping a state laboratory facility in Bernalillo County for the New Mexico Department of Health.

Behavioral Health Care Capital Fund

The 2004 Legislature created the Behavioral Health Capital Fund to provide low-cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. In 2005, the New Mexico Legislature authorized the NMFA to issue up to $2,500,000 secured by a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA to capitalize the NMFA's Behavioral Health Capital Fund. Pursuant to the 2005 legislative authorization, the NMFA issued on February 28, 2006, $2,500,000 of taxable cigarette tax bonds which it placed privately with a New Mexico based financial institution.

Child Care Revolving Loan Fund

Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the NMFA with the Children Youth and Families Department to provide low-cost financing to licensed child care providers.

Statewide Economic Development Finance Act

With the passage of the Statewide Economic Development Finance Act ("SWEDFA"), the 2003 Legislature authorized the NMFA to issue taxable and tax-exempt bonds, make loans and provide loan and bond guarantees on behalf of private for-profit and not-for-profit entities. The 2005 Legislature appropriated $10 million to the Economic Development Revolving Fund authorized under SWEDFA from which the NMFA will buy portions of bank loans made to New Mexico businesses.

Primary Care Capital Fund

In 1994, a $5,000,000 revolving fund was created in the State treasury to be administered by the NMFA and from which loans and contracts for services would be provided to primary care health clinics and agencies in rural or other healthcare underserved areas of the State. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Department of Health and the NMFA have negotiated a joint powers agreement whereby the Department of Health will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Department of Health adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded 13 loans totaling $6,629,659.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to $1,585,000,000 in bonds for the purpose of financing state transportation projects. The NMFA sold $700,000,000 of its State Transportation Revenue Bonds (Senior Lien) Series 2004A, $237,950,000 of its State Transportation Refunding Revenue Bonds (Subordinate Lien) Subordinate and $200,000,000 of its Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C on April 30, 2004, for delivery on May 20, 2004. The Series 2004A bonds financed transportation projects of the State Department of Transportation. The Subordinate and Series 2005C bonds refunded and restructured the NMFA's outstanding Federal Highway Grant Anticipation Revenue Bonds, Series 1998A and Series 2001, and certain maturities of several issues of State Transportation Commission bonds, all of which were issued for the purposes of financing certain public highway projects in the State. The Bonds will be payable from State road fund and the State highway infrastructure fund.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was created in 1997. The Drinking Water Fund Act creates the New Mexico Drinking Water State Revolving Loan Fund ("DWRLF"). The NMFA administers the DWRLF. The purpose of the Drinking Water Fund Act is to provide local authorities with low-cost financial assistance in the construction and rehabilitation of drinking water facilities necessary to protect drinking water quality and the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act ("SDWA"), which required the Environmental Protection Agency ("EPA") to make capitalization grants to the states to further the health objectives of the SDWA. The State has been awarded approximately $75,500,000 in capitalization grants from the U.S. Environmental Protection Agency through December 31, 2005, approximately $67,200,000 of which is dedicated solely to the Drinking Water Revolving Loan Fund, and the NMFA has provided a total state match of approximately $15,100,000, all of which is deposited in the Drinking Water Revolving Loan Fund. As of December 31, 2005 the NMFA funded 21 loans totaling approximately $32,766,927. The DWRLF has binding commitments to fund five additional loans totaling approximately $20,721,350.

Water and Wastewater Grant Fund Program

The Legislature established the Water and Wastewater Project Grant Fund in 1999. In 2000, the Legislature authorized the NMFA to issue up to $5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated $40,910,000 to the Water and Wastewater Grant Fund Program to fund 76 public water and wastewater systems. The Legislature has appropriated and authorized the use of $15,000,000 to the Water and Wastewater Grant Fund for emergency public purposes. In 2004, the Legislature authorized the NMFA to make grants to benefit 153 projects. The NMFA will fund grants for these projects on a first come, first served basis. As of March 31, 2006, the NMFA had made 142 grants totaling $55,160,367 and had approved an additional 16 projects, totaling $11,018,735. All funds in the Water and Wastewater Grant Fund have been obligated.

Local Government Planning Fund Program

The Water and Wastewater Planning Fund was created by the Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs and to pay the administrative costs of the program. In 2005, the Legislature changed the name of the fund to the Local Government Planning Fund and expanded the scope of the types of grants allowed under the statute to include water conservation plans, long-term master plans and economic development plans. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued $1,000,000 in revenue bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional $1,000,000 to this fund. As of March 31, 2006, the NMFA had made 38 grants totaling $826,140.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue revenue bonds in an amount not to exceed $75,000,000 to finance several State building projects in Santa Fe, namely the National Education Association Building, a new office building with integrated parking at the West Capitol Complex, the Public Employees Retirement Association Building, and the purchase of land adjacent to the District 5 Office of the State Highway and Transportation Department. In 2005, the Legislature authorized an additional $15 million in revenue bonds and expanded the list of projects that would benefit from the bond proceeds to include a central capitol campus parking structure and a state laboratory facility in Bernalillo County.

The Bonds are payable from the State Building Bond Fund, consisting of funds appropriated and transferred to the fund as well as gross receipts tax revenues distributed to the Fund. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of $34,695,000 to finance a portion of the authorized projects.

The Legislature in 2003 authorized the NMFA to issue bonds in the amount of $5,760,000 for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The Bonds were purchased as securities with moneys on deposit in the public project revolving fund as authorized by State law.

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APPENDIX G

GOVERNMENTAL UNITS AND THEIR OUTSTANDING LOAN BALANCES

The Governmental Units and the maximum reimbursable portions of the loans financed with the Series 2006B Bonds are listed in the following table. The maximum reimbursable portions may not match the amounts actually reimbursed with proceeds of the Series 2006B Bonds. Revenues from these Loans secure all of the Bonds (including but not limited to the Series 2006B Bonds).

Governmental Unit[(1)]	Maximum Reimbursable Portion	Pledged Revenues	Loan Maturity Date
City of Texico	$145,000	State Fire Protection Funds	5/1/2016
City of Socorro	894,999	State Governmental Gross Receipts Tax	5/1/2021
Santa Fe Community College	1,666,667	Net System Revenues	6/1/2015
Village of Mosquero	125,000	State Fire Protection Funds	5/1/2016
City of Santa Fe	14,986,587	Gross Receipts Tax and Net System Revenues	6/1/2036
Cibola County	515,572	Gross Receipts Tax	5/1/2013
Village of Dora	126,550	State Fire Protection Funds	5/1/2016
Otero County – Bent Volunteer Fire Department	78,804	State Fire Protection Funds	5/1/2011
Otero County – La Luz Volunteer Fire Department	112,778	State Fire Protection Funds	5/1/2016
Quay County – Forrest Volunteer Fire Department	39,702	State Fire Protection Funds	5/1/2016
Socorro County – San Antonio Volunteer Fire Department	147,223	State Fire Protection Funds	5/1/2016
Valencia County – Los Chavez Volunteer Fire Department	270,000	Fire Excise Tax	5/1/2016
Town of Vaughn	63,889	State Fire Protection Funds	5/1/2016
Miner's Colfax Medical Center	6,487,649	State Permanent Funds	5/1/2026
City of Truth or Consequences	65,152	Gross Receipts Tax	5/1/2026
Village of Ruidoso	846,667	Gas Tax	5/1/2016
Otero County –Dog Canyon Volunteer Fire Department	54,983	State Fire Protection Funds	5/1/2016
Zuni Public Schools	6,258,280	Federal Impact Aid	5/1/2026
Central Consolidated School District	8,069,675	Federal Impact Aid	8/1/2020
Village of Ruidoso	1,377,778	Net Solid Waste System Revenues	5/1/2013

(1) Certain Agreements have Agreement Reserve Accounts funded with loan proceeds or equity contributions from the applicable Governmental Units in the aggregate amount of $2,355,810.40.

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APPENDIX H

SPECIMEN BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ____________________________
Assistant Secretary

STD-R-7
01/05

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NEW MEXICO FINANCE AUTHORITY • SENIOR LIEN PUBLIC PROJECT REVOLVING FUND • REVENUE BONDS • SERIES 2006B

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NEW ISSUE – BOOK-ENTRY ONLY

DAC Bond®

Ratings:	**Insured**	**Underlying**
Moody's:	*"Aaa"*	*"Aa2"*
S & P:	*"AAA"*	*"AA"*
Fitch:	*"AAA"*	*"AA"*

(See "RATINGS" herein)

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2006D Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2006D Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D Bonds. See "TAX MATTERS."

$56,400,000
NEW MEXICO FINANCE AUTHORITY
Senior Lien Public Project Revolving Fund
Revenue Bonds
Series 2006D

Dated: August 30, 2006 **Due:** June 1, as shown on inside cover

The New Mexico Finance Authority Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006D (the "Series 2006D Bonds") are being issued as fully registered bonds in denominations of $5,000 or any integral multiple of $5,000. The Depository Trust Company will act as securities depository for all of the Series 2006D Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each series and maturity of the Series 2006D Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2006D Bonds will be made in book-entry form only, and beneficial owners of the Series 2006D Bonds will not receive physical delivery of bond certificates, except as described in this Official Statement. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Series 2006D Bonds.

The Series 2006D Bonds will be issued under and secured by a General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously amended and supplemented (the "General Indenture"), and as further amended and supplemented by a Sixty-Seventh Supplemental Indenture of Trust, dated as of July 1, 2006 (the "Sixty-Seventh Supplemental Indenture," and together with the General Indenture, the "Indenture"), between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee. Interest on the Series 2006D Bonds accrues from August 30, 2006 and is payable on June 1 and December 1 of each year, commencing December 1, 2006. Principal of the Series 2006D Bonds is payable in the amounts and on the dates, and interest is payable at the rates, shown on the Maturity Schedule set forth on the inside front cover.

SEE MATURITY SCHEDULE
ON INSIDE FRONT COVER

The Series 2006D Bonds are subject to redemption prior to maturity.

Proceeds of the Series 2006D Bonds will be used by the NMFA to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans"); (ii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition), proceeds of which shall be used to finance the acquisition and improvement of an office complex for use by the State; (iii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006B (Refunding Project), proceeds of which shall be used to refund the outstanding New Mexico Finance Authority State Office Building Tax Revenue Bonds, Series 2002A; and (iv) pay costs incurred in connection with the issuance of the Series 2006D Bonds. The principal of and premium, if any, and interest on the Series 2006D Bonds and additional bonds issued or to be issued are payable solely from and secured solely by the Trust Estate, which includes revenues from the repayment of certain Loans to Governmental Units, the NMFA Portion of the Governmental Gross Receipts Tax, and certain moneys in funds and accounts. The NMFA has issued or incurred and expects to issue or incur parity bonds and other obligations pursuant to the Indenture.

The Series 2006D Bonds are special limited obligations of the NMFA, payable, together with additional bonds issued or to be issued, solely from and secured solely by the Trust Estate. The Series 2006D Bonds will not constitute or create a general obligation or other indebtedness of the State of New Mexico, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The Series 2006D Bonds do not constitute or give rise to personal liability on the part of the members, directors or officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Simultaneously with the delivery of the Series 2006D Bonds, a financial guaranty insurance policy will be issued by Ambac Assurance Corporation insuring the payment of principal of and interest on the Series 2006D Bonds when due. See "BOND INSURANCE" herein.

Ambac

Certain legal matters concerning the legality of the Series 2006D Bonds will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2006D Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, for the NMFA, by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, and Lewis and Roca LLP, Albuquerque, New Mexico, for the Underwriters. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2006D Bonds. It is expected that a single certificate for each maturity of the Series 2006D Bonds will be delivered to DTC or its agent on or about September 5, 2006. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2006D Bonds.

Piper Jaffray & Co.

Cabrera Capital Markets, Inc. **Ramirez & Co., Inc.**

Dated: July 27, 2006

Maturity Schedule

$56,400,000
New Mexico Finance Authority
Senior Lien Public Project Revolving Fund Revenue Bonds
Series 2006D

Year (June 1)	Principal Amount	Interest Rate	Yield	CUSIP Number
2007	$3,755,000	4.500%	3.720%	64711MZ91
2008	860,000	4.250%	3.750%	64711M2A4
2009	900,000	4.250%	3.790%	64711M2B2
2010	920,000	4.250%	3.830%	64711M2C0
2011	960,000	4.250%	3.880%	64711M2D8
2012	1,005,000	4.250%	3.920%	64711M2E6
2013	995,000	5.000%	4.000%	64711M2F3
2014	990,000	5.000%	4.090%	64711M2G1
2015	1,040,000	5.000%	4.150%	64711M2H9
2016	1,095,000	5.000%	4.210%	64711M2J5
2017	1,150,000	5.000%	4.270%*	64711M2K2
2018	1,205,000	5.000%	4.320%*	64711M2L0
2019	1,270,000	5.000%	4.360%*	64711M2M8
2020	1,335,000	5.000%	4.390%*	64711M2N6
2021	1,400,000	5.000%	4.420%*	64711M2P1
2022	1,475,000	5.000%	4.450%*	64711M2Q9
2023	1,555,000	5.000%	4.480%*	64711M2R7
2024	2,100,000	5.000%	4.500%*	64711M2S5
2025	2,210,000	5.000%	4.510%*	64711M2T3
2026	2,325,000	5.000%	4.530%*	64711M2U0
2027	2,445,000	5.000%	4.550%*	64711M2V8
2028	2,300,000	4.500%	4.610%	64711M2W6

$23,110,000 Series 2006D Term Bond due June 1, 2036 bearing interest at 5.000%, price 102.472%*,
CUSIP Number 64711M2X4

(plus accrued interest from August 30, 2006)

*Reflects yield to first optional redemption date on June 1, 2016.

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the Series 2006D Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, any Governmental Unit or others since the date of this Official Statement.

THE PRICES AT WHICH THE SERIES 2006D BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGE. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE SERIES 2006D BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2006D BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2006D Bonds have not been registered under the Securities Act of 1933, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such acts. The registration and qualification of the Series 2006D Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2006D Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the Series 2006D Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

NEW MEXICO FINANCE AUTHORITY
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Santa Fe, New Mexico 87501
Telephone: (505) 984-1454
Facsimile copy: (505) 984-0002

Members
Stephen R. Flance, Chairman
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Joanna Prukop, Secretary
Craig Reeves, Treasurer
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Special Tax Counsel
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Disclosure Counsel
Brownstein Hyatt & Farber, P.C.
Albuquerque, New Mexico

Trustee, Registrar and Paying Agent
Bank of Albuquerque, N.A.
Albuquerque, New Mexico

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OFFICIAL STATEMENT

$56,400,000
NEW MEXICO FINANCE AUTHORITY
Senior Lien Public Project Revolving Fund
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INTRODUCTION

This Official Statement, which includes the cover page and appendices, provides information in connection with the offer and sale of the Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006D (the "Series 2006D Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2006D Bonds, together with additional bonds the NMFA has issued or may issue in parity with them, are collectively referred to in this Official Statement as the "Bonds." Capitalized terms used and not defined in the main body of this Official Statement have the meanings specified in the General Indenture of Trust and Pledge, dated as of June 1, 1995, as previously amended and supplemented (the "General Indenture"), between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as successor trustee (the "Trustee"), and as further amended and supplemented by the Sixty-Seventh Supplemental Indenture of Trust, dated as of July 1, 2006 (the "Sixty-Seventh Supplemental Indenture"), between the NMFA and the Trustee, and are presented under the caption "Definitions" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." The General Indenture and all Supplemental Indentures are collectively referred to in this Official Statement as the "Indenture."

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the Series 2006D Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State of New Mexico (the "State") in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations and to provide assistance and advice on the NMFA's Public Project Revolving Fund Program. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY" and the NMFA's financial statements included as Appendix A.

Purposes of the Series 2006D Bonds

Proceeds from the sale of the Series 2006D Bonds will be used by the NMFA to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans"), (ii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition), proceeds of which shall be used to finance the acquisition and improvement of an office complex for use by the State; (iii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006B (Refunding Project), proceeds of which shall be used to refund the outstanding New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2002A; and (iv) pay costs incurred in connection with the issuance of the Series 2006D Bonds. The principal of and premium, if any, and interest on the Series 2006D Bonds and additional bonds issued or to be issued are payable solely from and secured solely by the Trust Estate, which includes revenues from the repayment of certain Loans to Governmental Units, the NMFA Portion of the Governmental Gross Receipts Tax, and certain moneys in funds and accounts. The NMFA has issued or incurred and expects to issue or incur parity bonds and other obligations pursuant to the Indenture. See "THE PLAN OF FINANCING." See also Appendix G for a list of the Governmental Units and their outstanding loan balances.

Parity Obligations

Bonds with a lien on the Trust Estate in parity with the lien of the Series 2006D Bonds have been issued and may be issued to provide loans and grants to and to purchase securities from Governmental Units. For a description of the Bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds."

Subordinate Obligations

Obligations with a subordinate lien on the revenues from the NMFA Portion of the Governmental Gross Receipts Tax (as defined below) and Revenues from Additional Pledged Loans released from the lien of the Indenture have been issued and may be issued to provide loans to and to purchase securities from certain Governmental Units. For a description of the subordinate obligations currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Bonds."

Authority for Issuance

The Series 2006D Bonds are being issued under the authority of and pursuant to the laws of the State, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.*, NMSA 1978, as amended (the "Act"), and the Indenture. For a description of the Public Project Revolving Fund Program, see "NEW MEXICO FINANCE AUTHORITY – The Public Project Revolving Fund Program." For a description of the State Building Bonding Fund Program, see Appendix F "OTHER NMFA PROGRAMS AND PROJECTS – The State Building Bonding Fund Program."

Terms of the Series 2006D Bonds

Payments

The Series 2006D Bonds will be dated August 30, 2006. Interest on the Series 2006D Bonds accrues from August 30, 2006 and is payable on June 1 and December 1 of each year, commencing December 1, 2006. The Series 2006D Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity) and will bear interest at the rates shown on the inside front cover of this Official Statement.

Denominations

The Series 2006D Bonds are issuable in denominations of $5,000 or integral multiples of $5,000.

Book-Entry System

Individual purchases will be made in book-entry only form, and purchasers of the Series 2006D Bonds will not receive physical delivery of bond certificates except as more fully described in Appendix E – "BOOK-ENTRY ONLY SYSTEM." Payments of principal of and interest on the Series 2006D Bonds will be made directly to The Depository Trust Company ("DTC") or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Upon receipt of such payments, DTC is to remit such payments to the DTC Participants (as defined below) for subsequent disbursement to the beneficial owners of the Series 2006D Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the Series 2006D Bonds are in book-entry only form, references in other sections of this Official Statement to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the Series 2006D Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption

The Series 2006D Bonds are subject to redemption prior to maturity. See "THE SERIES 2006D BONDS – Redemption."

Security and Sources of Payment for the Bonds

Special Limited Obligations

The Bonds, including the Series 2006D Bonds, are special limited obligations of the NMFA secured by and payable solely from the Trust Estate, which includes the Revenues described below and certain funds and accounts created and maintained pursuant to the Indenture. The Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Revenues

Revenues are defined by the General Indenture to mean:

- all revenues received or earned by the NMFA from or attributable to certain loan agreements (the "Agreements") (but excluding amounts paid as Program Costs);
- all revenues received or earned by the NMFA from or attributable to loans made or securities purchased from moneys in the Public Project Revolving Fund and pledged as "Additional Pledged Loans" under the Indenture;
- all revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax Revenues; and
- all interest earned on and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund).

All income earned from the investment of moneys in the respective Accounts of the Debt Service Account and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the related Account of the Debt Service Account and applied as a credit to the Loan Payment next coming due under the Agreement; provided, however, that all earnings received on each Governmental Unit's Account will be allocated solely to the benefit of such Governmental Unit. For a description of the Agreements, the NMFA Portion of the Governmental Gross Receipts Tax and the Additional Pledged Loans, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues." For a description of the funds and accounts created by the Indenture, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Flow of Funds." See also Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Additional Bonds

The NMFA maintains an ongoing program to provide loans and to purchase securities from Governmental Units and expects to finance certain of those activities with the issuance of Additional Bonds in parity with the Series 2006D Bonds. The timing, amount and other details of such Additional Bonds are not known as of the date of this Official Statement.

The NMFA must meet certain requirements prior to the issuance of Additional Bonds or other obligations with a lien on the Trust Estate in parity with the lien of the Series 2006D Bonds. For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds." For a discussion of the outstanding Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds." The NMFA may not issue bonds or other indebtedness payable with a priority senior to the lien on the Trust Estate of the 2006D Bonds without the written consent of one hundred percent (100%) of the owners of the Outstanding 2006D Bonds. The NMFA has issued, and expects to issue in the future, indebtedness having a lien on the Trust Estate subordinate to that of the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Bonds."

Bond Insurance

Simultaneously with the delivery of the Series 2006D Bonds, a financial guaranty insurance policy (the "Bond Insurance Policy") will be issued by Ambac Assurance Corporation (the "Bond Insurer") insuring the payment of principal of and interest on the Series 2006D Bonds when due. See "BOND INSURANCE" herein.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2006D Bond Owners that, so long as the Series 2006D Bonds remain outstanding, the NMFA will provide certain annual financial information, operating data and audited financial statements with respect to the NMFA, each Governmental Unit expected by the NMFA to have loan repayment obligations in the then-current fiscal year constituting more than twenty percent (20%) of the estimated Revenues in the then-current fiscal year to each nationally recognized municipal securities information repository and notice of certain material events to the Municipal Securities Rulemaking Board in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in "CONTINUING DISCLOSURE UNDERTAKING."

In September 2004, the NMFA discovered that for fiscal years 2000-01, 2001-02 and 2002-03, certain information required to be filed under the terms of its continuing disclosure undertakings in effect at that time was not filed. The NMFA has since filed the information and believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings. The NMFA engaged Digital Assurance Certification, L.L.C., as dissemination agent, to assist with continuing disclosure compliance matters. See "CONTINUING DISCLOSURE UNDERTAKING."

Tax Considerations

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2006D Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

In the opinion of such Special Tax Counsel to the NMFA, under existing laws of the State of New Mexico as currently enacted and construed, interest on the Series 2006D Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D Bonds.

The form of opinion to be delivered by Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, is included in Appendix D. For a discussion of such opinion and certain other tax consequences incident to the ownership of the Series 2006D Bonds, see "TAX MATTERS."

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2006D Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in the form included in Appendix D and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under "TAX MATTERS" and in the form included in Appendix D. Lewis and Roca LLP, Albuquerque, New Mexico, counsel for the Underwriters, Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, and Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, will deliver their respective opinions regarding certain legal matters, and the Office of the Attorney General of the State will deliver a no-litigation certificate. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2006D Bonds. See "FINANCIAL ADVISOR."

The NMFA's financial statements for the fiscal year ended June 30, 2005, included in Appendix A, have been audited by Meyners & Company, Certified Public Accountants, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS."

Offering and Delivery of the Series 2006D Bonds

The Series 2006D Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate for each maturity of the Series 2006D Bonds will be delivered to DTC or its agent on or about September 5, 2006. The Series 2006D Bonds will be distributed in the initial offering by Piper Jaffray & Co., Cabrera Capital Markets, Inc. and Ramirez & Co., Inc. (the "Underwriters"), for which Piper Jaffray & Co. is acting as managing underwriter and representative of the Underwriters (in that role, the "Representative").

Other Information

This Official Statement speaks only as of its date, and the information in it is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents in this Official Statement do not purport to be complete, and reference is made to those laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Financial Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and any purchaser or holder of Series 2006D Bonds.

THE SERIES 2006D BONDS

Generally

The Series 2006D Bonds are being issued pursuant to the Act, Indenture, and Resolutions adopted by the NMFA on July 27, 2006. The Series 2006D Bonds are being issued to: (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans"), (ii) purchase contemporaneously with the issuance of the Series 2006D Bonds the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition) (the "2006A Bonds") to finance the acquisition and improvement of a public building for use by the State with proceeds of the 2006A Bonds, (iii) purchase contemporaneously with the issuance of the Series 2006D Bonds the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006B (Refunding Project) (the "2006B Bonds") to refund the outstanding New Mexico Finance Authority State Office Building Bonds, Series 2002A with proceeds of the 2006B Bonds and (iv) pay costs incurred in connection with the issuance of the Series 2006D Bonds. For a description of the Public Project Revolving Fund Program, see "NEW

MEXICO FINANCE AUTHORITY – The Public Project Revolving Fund Program." For a description of the State Building Bonding Fund Program, see Appendix F – "OTHER NMFA PROGRAMS AND PROJECTS – The State Building Bonding Fund Program." For a description of the plan of financing, see "THE PLAN OF FINANCING." For a description of certain provisions of the Indenture, see Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." Copies of the Indenture and a form of the Sixty-Seventh Supplemental Indenture are available as described under "ADDITIONAL INFORMATION."

Description of the Series 2006D Bonds

The Series 2006D Bonds will be dated as of August 30, 2006. Interest will accrue on the Series 2006D Bonds from August 30, 2006 at the rates presented on the inside front cover page of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), and is payable on June 1 and December 1 of each year, commencing December 1, 2006. The Series 2006D Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front cover (unless redeemed prior to maturity). The Series 2006D Bonds are issuable in denominations of $5,000 or integral multiples of $5,000 (the "Authorized Denominations").

Book-Entry Only System

The Depository Trust Company will act as securities depository for all of the Series 2006D Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount and maturity of each series of the Series 2006D Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2006D Bonds will be made in book-entry only form, and beneficial owners of the Series 2006D Bonds will not receive physical delivery of bond certificates, except as described in Appendix E. Upon receipt of payments of principal and interest, DTC will remit such payment to DTC participants for subsequent disbursement to the beneficial owners of the Series 2006D Bonds. For a more complete description of the book-entry only system, see Appendix E – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Generally

The Series 2006D Bonds are subject to optional redemption and mandatory sinking fund redemption upon prepayment of Loans prior to maturity, as described below.

Optional Redemption by the NMFA

The Series 2006D Bonds maturing on or after to June 1, 2017 are subject to optional redemption at any time on and after June 1, 2016, in whole or in part, in such order of maturity as may be selected by the NMFA and by lot within each maturity (if in part, in integral multiples of $5,000), at the option of the NMFA, upon notice as provided in the Indenture and at the redemption price of one hundred percent (100%) of the principal amount of the Series 2006D Bonds to be redeemed, but without premium.

Mandatory Sinking Fund Redemption

The Series 2006D Bonds maturing on June 1, 2036 are subject to mandatory sinking fund redemption on each of the dates set forth below, at a price equal to one hundred percent (100%) of the principal amount of each Series 2006D Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts:

Redemption Dates (June 1)	Principal to be Redeemed
2029	$2,405,000
2030	2,530,000
2031	2,660,000
2032	2,800,000
2033	2,945,000
2034	3,095,000
2035	3,255,000
2036*	3,420,000

* Final Maturity

If less than all of the Series 2006D Bonds of a series maturing on June 1, 2036 are redeemed in a manner other than pursuant to a mandatory sinking fund redemption, the principal amount so redeemed will be credited toward a part or all of any one or more of any mandatory sinking fund payments for such Series 2006D Bonds, in such order as may be directed by the NMFA.

Notice of Redemption

In the event any of the Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Registered Owners of Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days, but not more than 60 days, prior to the redemption date.

In addition, further notice of any redemption of Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Registered Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the Bonds. Failure to give all or any portion of such further notice will not in any manner defeat the effectiveness of a call for redemption.

If at the time of mailing of any notice of redemption there are not on deposit with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Registered Owners of Bonds or portions thereof redeemed but who failed to deliver Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Registered Owners will not affect the validity of the proceedings for the redemption of the Bonds.

Partially Redeemed Bonds

In case any Bond is redeemed in part, upon the presentation of such Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the NMFA, a Bond or Bonds of the same series, interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Bond. A portion of any Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or an integral multiple of $5,000 and, in selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Bonds by $5,000.

Defeasance

When a Bond has been deemed to be paid under the Indenture, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment. Any Bond will be deemed to be paid for all purposes of the Indenture when (1) the principal of and the applicable premium, if any, on such Bond (whether at maturity or prior redemption) plus interest on the Bond to the Bond's due date either have been paid or have been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent shall have irrevocably set aside exclusively for such payment moneys sufficient to make such payment, and/or noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (2) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special Limited Obligations

The Bonds, including the Series 2006D Bonds, are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2006D Bonds do not constitute nor create a general obligation or other indebtedness of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2006D Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Trust Estate

Generally

In the Indenture, the NMFA pledges and assigns the Trust Estate, first, for the equal and ratable payment of the Bonds. The Trust Estate includes:

- the Revenues, as described below under the caption "Revenues;"
- proceeds of the Bonds (until used as provided in the Indenture); and
- other moneys and securities held in the funds and accounts established and maintained by the Trustee under the Indenture, other than:
    - moneys and securities held in the Rebate Fund and any Agreement Reserve Account;
    - any Rebate Requirement not yet deposited in the Rebate Fund; and
    - certain moneys for the redemption or defeasance of Bonds.

As discussed under "Flow of Funds" below, revenues received from a Governmental Unit by the Trustee on behalf of the NMFA pursuant to a Loan Agreement are deposited in a separate account of the Debt Service Account established for that Governmental Unit and are periodically transferred by the Trustee to the Bond Fund and used to make debt service payments on the Bonds. All revenues received by the NMFA from the NMFA Portion of the Governmental Gross Receipts Tax and from any Additional Pledged Loans are transferred to the Trustee and deposited in the Revenue Fund. Moneys in the Revenue Fund are used each Bond Fund Year to pay debt service on the Bonds to the extent that moneys in the several accounts of the Debt Service Account are insufficient and to pay debt service on the portions of the Bonds used to finance grants. At the end of each Bond Fund Year moneys in the Revenue Fund in excess of the requirements for such moneys under the Indenture are transferred to the NMFA and deposited in the Subordinate Lien PPRF Revenue Fund. These moneys are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Revenues are deposited, see “Flow of Funds” below under this caption, and Appendix B - “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE - THE INDENTURE - Funds and Accounts.” For a more complete description of the Revenue Fund, see “Flow of Funds Revenue Fund” under this caption.

Revenues

Generally

Revenues include:

- all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs);
- all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any;
- all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax; and
- all interest earned by and profits derived from the sale of investments in the funds and accounts created under the Indenture (except the Rebate Fund).

All income earned from the investment of moneys in the respective Accounts of the Debt Service Account and Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement) will be deposited at least once each year in the Account of the Debt Service Account and applied as a credit to the Loan Payment next coming due under the Loan Agreement, provided, however, that all earnings received on the Governmental Units' Accounts will be allocated solely to the benefit of such Governmental Unit.

The Agreements and the Agreement Revenues

Generally. The Agreements consist of Loan Agreements and Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of their respective projects by the NMFA. (Under the Indenture, “Agreements” also includes Grant Agreements; however, the Grant Agreements contain no repayment provisions). Under each Loan Agreement or issue of Securities, the respective Governmental Unit pledges to the NMFA for payment of all amounts due under their respective Agreements (1) revenues of specific enterprise systems or revenues attributable to certain taxes (the “Agreement Revenues”) and (2) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to pay principal of and interest on its loan promptly from its Agreement Revenues and to continue such payments until its Loan is paid in full.

Agreement Reserve Fund. Pursuant to the Indenture, an Agreement Reserve Fund has been created with the Trustee. The NMFA may require the establishment and funding of accounts within the Agreement Reserve Fund in connection with certain Agreements. Amounts in a Governmental Unit’s account of the Agreement Reserve Fund will be withdrawn by the Trustee and deposited into that Governmental Unit’s account of the Debt Service Account to the extent of any shortfall in payments by such Governmental Unit under its Agreement. A subaccount may also be created within a Governmental Unit’s account to secure payments on an Additional Pledged Loan. Amounts in a Governmental Unit’s account of the Agreement Reserve Fund will not be used to cover shortfalls in payments of other Governmental Units and will not otherwise be available to defray deficiencies in the Bond Fund. See “PLAN OF FINANCING – Estimated Sources and Uses of Funds” and “Flow of Funds” below under this caption.

Pursuant to the applicable loan management policies of the NMFA, a reasonably required debt service reserve account is required for all Loans unless any one of the following conditions exist:

- The Loan is less than $100,000;

- The Governmental Unit has created general obligation debt secured by its taxing power and full faith and credit, whereby the Governmental Unit is required by law to adjust the property tax levy sufficient to meet principal and interest due on bonds within the next year;

- The Governmental Unit has demonstrated ability to meet prior debt obligations and has sufficient staffing to manage timely loan payments for a loan secured by a revenue with an underlying rating of at least a "AA" from one of the three nationally recognized rating agencies;

- The Governmental Unit has agreed to purchase a surety policy to enhance the Loan, in the type and manner acceptable to the NMFA; or

- The Loan is secured by State Fire Protection Funds or State Law Enforcement Funds and has a minimum coverage of 2.0x.

In lieu of a bond-funded debt service reserve account funded from proceeds of a loan, a Governmental Unit may be allowed to accumulate amounts required to fund its debt service reserve fund over a maximum of three years with revenues pledged by the Governmental Unit as security for the loan in excess of the amounts needed to pay debt service on the loan, provided: (1) the Governmental Unit has demonstrated ability to meet prior debt obligations and has sufficient staffing to manage timely loan payments; and (2) it is determined that the use of excess revenue collections to build the debt service reserve fund will not impair the Governmental Unit's ability to provide governmental services.

Agreements with Governmental Units. Each Governmental Unit that has entered into a Loan Agreement or has issued Securities has pledged specific Agreement Revenues to the repayment of its Loan. See Appendix G for a list of the Governmental Units and the allocable portions of the Loans financed with the Series 2006D Bonds.

The following table lists the ten Governmental Units with Loan repayment obligations, based on scheduled payments in fiscal year 2006-07 and assuming no prepayment, are expected to generate the highest percentages of estimated annual Revenues in fiscal year 2006-07.

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Governmental Units with Loans Expected to Generate the Highest Percentages of Estimated Annual Pledged Revenues Based on Scheduled Fiscal Year 2006-07 Loan Payments

Borrower	FY 2006-07 Debt Service	% of Projected FY 2006-07 Pledged Revenues	Final Maturity
Albuquerque Bernalillo County Water Utility Authority	6,251,136	8.70%	5/1/2024
State of New Mexico (State Office Building Fund Gross Receipts Tax Pledge)	5,977,812	8.32%	6/1/2036
City of Albuquerque[(1)]	2,819,787	3.92%	5/1/2027
State Energy, Minerals and Natural Resources Department	2,260,226	3.14%	7/1/2023
Farmington Municipal Schools	2,106,783	2.93%	5/1/2015
Gallup-McKinley School District	1,666,570	2.32%	8/1/2024
Taos County	1,530,136	2.13%	6/1/2021
Valencia County	1,436,490	2.00%	8/1/2019
Miners' Colfax Medical Center	1,250,282	1.74%	5/1/2017
City of Santa Fe	1,206,365	1.68%	6/1/2036

(1) Assumes City of Albuquerque Loans are paid on June 30 of each fiscal year, rather than on the succeeding July 1, as required by the related Agreements.

Source: New Mexico Finance Authority

No Obligation of Governmental Units to Cover Shortfalls. A Governmental Unit is not required to make up any Loan Payment not paid in full by another Governmental Unit or to make up any insufficiency in the NMFA Portion of the Governmental Gross Receipts Tax.

Additional Pledged Loans

The NMFA may make loans from or purchase securities with available funds in the Public Project Revolving Fund. At its option, the NMFA may designate such loans or securities as Additional Pledged Loans (as hereinafter defined), and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds. See "Flow of Funds" below under this caption.

The Governmental Gross Receipts Tax

Generally. Pursuant to Section 7-1-6.38, NMSA 1978, the Public Project Revolving Fund administered by the NMFA is allocated seventy-five percent (75%) of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. For purposes of this Official Statement, the seventy-five percent (75%) net receipts which is allocated to the Public Project Revolving Fund is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Indenture, the NMFA Portion of the Governmental Gross Receipts Tax will be paid when received by NMFA to the Trustee and will be accounted for and maintained by the Trustee in the Revenue Fund created under the Indenture within the Public Project Revolving Fund and is available (1) to pay debt service on the Bonds to the extent Loan Payments paid by Governmental Units pursuant to the Agreements are not sufficient to pay debt service when due and (2) to pay debt service on the portions of the Bonds issued to fund Grants. See "Flow of Funds" below under this caption for additional information on the use of moneys in the Revenue Fund. Under the Indenture, payments attributable to Additional Pledged Loans, if any, will be paid by the NMFA to the Trustee prior to each Interest Payment Date. See Appendix B - "EXTRACTS OF

CERTAIN PROVISIONS OF THE INDENTURE" for certain information concerning the Revenue Fund and allocation of amounts therein to payment of principal of and interest on the Bonds.

Pursuant to Section 7-9-4.3, NMSA 1978, the governmental gross receipts tax is imposed on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State of New Mexico, except school districts and certain health care entities.

Revisions to laws of the State affecting, among other things, tax rates, taxed activities and distributions of governmental gross receipts tax revenues could be adopted in the future by the State legislature. There is no assurance that any future revisions to State laws will not adversely affect, among other things, tax rates, activities now subject to the governmental gross receipts tax or distribution of governmental gross receipts tax revenues to the NMFA. However, the State has pledged to and agreed with holders of any bonds or notes issued under the Act that the State will not limit or alter the rights vested by the Act in the NMFA to fulfill the terms of any agreements made with the holders thereof or in any way impair the rights and remedies of those holders until the bonds or notes together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Governmental gross receipts are defined in Section 7-9-3.2, NMSA 1978, as all receipts of the State or any agency, institution, instrumentality or public subdivision thereof except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services, from:

- the sale of tangible personal property other than water from facilities open to the general public;
- the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public;
- refuse collection, refuse disposal or both;
- sewage services;
- the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State; and
- the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tiedown aircraft or dock boats.

The definition of governmental gross receipts includes receipts from the sale of tangible personal property handled on consignment when sold from facilities open to the general public, but excludes cash discounts taken and allowed, governmental gross receipts tax payable on transactions reportable for the period and any type of time-price differential.

The governmental gross receipts tax was enacted into law and first imposed in 1991. It is imposed at a rate of five percent on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State, except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services. In addition, the governmental gross receipts tax is not imposed on:

- receipts from transactions involving tangible personal property or services on which the gross receipts tax, compensating tax, motor vehicle excise tax, gasoline tax, special fuel tax, special fuel excise tax, oil and gas emergency school tax, resources tax, processors tax, service tax, or the excise tax imposed under Section 66-12-6.1, NMSA 1978, is imposed;
- receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision or on receipts from operation of a cable television system owned or operated by a

municipality, because those receipts are subject to the regular gross receipts tax under Section 7-9-13, NMSA 1978;

- receipts from selling livestock and receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, unprocessed agricultural products, hides or pelts;

- receipts from selling tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products, services, or activities sold at, related to or occurring at a minor league baseball stadium on which a stadium surcharge is imposed pursuant to the Minor League Baseball Stadium Funding Act; or

- municipal event center receipts from the sale of tickets, parking, souvenirs, concessions, programs, advertising, merchandise, corporate suites or boxes, broadcast revenues and all other products or services provided at municipal event centers that provide seating for a minimum of four thousand people.

Deductions from the governmental gross receipts tax include:

- certain receipts from selling tangible personal property to the United States or the State or any governmental unit or subdivision, agency, department or instrumentality of the State;

- receipts from selling tangible personal property to an Indian tribe, nation or pueblo or any governmental subdivision, agency, department or instrumentality thereof for use on Indian reservations or pueblo grants;

- certain receipts from the sale of tangible personal property to a person engaged in the business of manufacturing if the sale is made to a person who delivers a non-taxable transaction certificate to the seller;

- receipts from transactions in interstate commerce;

- receipts from selling tangible personal property, licenses or a service for resale if the sale is made to a person who delivers a nontaxable transaction certificate to the seller;

- certain receipts from selling tangible personal property to entities exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended or renumbered, if the sale is made to an organization that delivers a nontaxable transaction certificate to the seller;

- refunds and allowances made to buyers or amounts written off the books as an uncollectible debt by a person reporting governmental gross receipts tax on an accrual basis;

- certain receipts from selling prosthetic devices if the sale is made to a person who is licensed to practice medicine, osteopathic medicine, dentistry, podiatry, optometry, chiropractic or professional nursing and who delivers a nontaxable transaction certificate to the seller;

- receipts from the sale of prescription drugs; and

- receipts from sales of certain services for resale when the receipts from the resale of the service are not subject to the tax (receipts from sales of services for resale when the receipts from the resale are subject to governmental gross receipts tax remain deductible, as described above).

<u>Collection and Distribution Information</u>. Governmental agencies are treated as taxpayers under the provisions of the Tax Administration Act, Section 7-1-1 *et seq.*, NMSA 1978, and are responsible for paying the governmental gross receipts tax to the New Mexico Taxation and Revenue Department in accordance with the State's Tax Administration Act. Collections are first deposited into a tax administration suspense fund for the purpose of making disbursements for refunds, among other things. On the last day of each month, the balance in the suspense fund is identified by tax source and distributed to the appropriate municipalities or state agencies, including

the NMFA. Collection of governmental gross receipts tax is administered by the New Mexico Taxation and Revenue Department. Governmental gross receipts taxes are to be paid on or before the 25th day of the month following the month in which the taxable event occurs.

Presented below is information from the New Mexico Taxation and Revenue Department concerning collections of the governmental gross receipts tax for the fiscal years 2000-01 through 2005-06. There can be no assurance that governmental gross receipts tax collections will continue to grow at historical rates or otherwise.

Governmental Gross Receipts Tax Collections
Fiscal Years 2000-2001 Through 2005-06

	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06[1]
Total Net Receipts	$20,994,555	$20,616,433	$22,908,393	$24,491,159	$24,593,886	$25,916,537
NMFA Portion of the Governmental Gross Receipts Tax	$15,745,916	$15,462,325	$17,181,295	$18,368,369	$18,445,414	$19,437,403

(1) Estimated. Unaudited; cash basis.

Source: State of New Mexico Taxation and Revenue Department

Presented below is information for the ten top payers of the governmental gross receipts tax for fiscal years 2002-03, through 2004-05. Such information is not publicly available from the State and has instead been obtained from each individual entity. The NMFA does not guarantee the accuracy of any such information.

Top Payers of Governmental Gross Receipts Taxes[2]
Fiscal Years 2002-03 Through 2004-05

	Fiscal Year 2002-03		Fiscal Year 2003-04		Fiscal Year 2004-05	
Entity	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts
Albuquerque Bernalillo County Water Utility Authority[1]			$5,992,345	24.47%	$5,840,450[2]	23.75%
City of Albuquerque[1]	$7,615,404	33.24%	2,393,510	9.77%	3,014,954	12.26%
City of Santa Fe	2,020,181	8.82	2,335,710	9.54%	2,161,898[2]	8.79%
City of Las Cruces	993,204	4.34	1,240,693	5.07%	1,273,532	5.18%
University of New Mexico	1,055,148	4.61	1,111,129	4.54%	1,286,475	5.23%
City of Rio Rancho	718,317	3.14	807,306	3.30%	876,666	3.56%
City of Farmington	742,103	3.24	664,164	2.71%	673,920	2.74%
City of Roswell	517,194	2.26	551,411	2.25%	531,245	2.16%
County of Los Alamos	439,554	1.92	478,477	1.95%	443,102	1.80%
City of Gallup	323,236	1.41	347,556	1.42%	396,420	1.61%
Total	$14,424,343	62.97%	$15,922,302	65.01%	$16,498,662	67.08%

(1) Prior to December 2003, the Governmental Gross Receipts Taxes paid by the Albuquerque Bernalillo County Water Utility Authority were paid by the City of Albuquerque.
(2) Unaudited.

Sources: Listed entities

Flow of Funds

The Indenture creates a Program Fund, a Revenue Fund, a Bond Fund, a Debt Service Account with separate accounts for each Governmental Unit receiving a Loan, an Expense Fund, a Rebate Fund and an Agreement Reserve Fund with a separate account, if required, for each Agreement that has a reserve requirement. The repayment obligations of those Governmental Units receiving Additional Pledged Loans who have also entered into Loan Agreements with or issued Securities purchased by the NMFA, payable from the same revenue source, are on a parity with amounts due with respect to such Loan Agreements or Securities.

Flow of Funds Under General Indenture

All Loan Payments and other amounts paid by Governmental Units pursuant to the Loan Agreements and Securities are to be paid directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less an administrative fee of up to one quarter of one percent (0.25%) retained by the NMFA) prior to each Interest Payment Date, and the Trustee is directed to deposit all such payments immediately upon receiving them, in the following accounts and in the following priority:

First: to the related Account in the Debt Service Account in an amount required to cause the aggregate amount on deposit in that Account to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan;

Second: to the related Account, if any, in the Agreement Reserve Fund to the extent necessary to cause the balance in said Account to equal the Agreement Reserve Requirement, if any, of such Account.

On the fifth day preceding a Loan Payment Date (or, if such fifth day is not a Business Day, on the Business Day next preceding such fifth day), if the amount on deposit in any Governmental Unit's Account of the Debt Service Account is insufficient for payments coming due under the related Loan Agreement or Securities on the next Loan Payment Date, the Trustee is directed to transfer from the related Agreement Reserve Account, if any, to that Governmental Unit's Account of the Debt Service Account, an amount sufficient, together with amounts in such Debt Service Account, to pay the Principal Component and the Interest Component due under such Loan Agreement or Securities on such Loan Payment Date.

On each Interest Payment Date for the Bonds, the Trustee is directed to transfer moneys in the respective Accounts of the Debt Service Account to the Bond Fund to pay the interest on the related Bonds becoming due on such Interest Payment Date and to pay the principal of each related Bond due at maturity or by prior redemption, to the extent amounts are on deposit for such purpose. At least once each year, and more frequently if required pursuant to the provisions of a Supplemental Indenture, the Trustee must determine the amount necessary (1) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (2) to replenish the Governmental Unit's Account in the Agreement Reserve Fund and (3) in certain cases, to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess that the Trustee does not expect to be required for such payments to the related Governmental Unit or to credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement. In certain cases, any excess attributable to the difference in interest rates on the Governmental Unit's Loans and the related Bonds (including the Series 2006D Bonds) will be deposited into the Revenue Fund.

The above provisions, with respect to the flow of funds, do not apply to moneys provided pursuant to the 2000A Loan Agreement. For a description of the flow of funds with respect to the 2000A Loan Agreement, see Appendix B - "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE - THE INDENTURE Application of Loan Payments."

Revenue Fund

During each Bond Fund Year, all Revenues constituting receipts from the NMFA Portion of the Governmental Gross Receipts Tax and principal and interest payments from Additional Pledged Loans are required to be paid by the NMFA to the Trustee prior to each Interest Payment Date and shall be accounted for and maintained by the Trustee in the Revenue Fund. On each Interest Payment Date, the Trustee (except as otherwise provided in a Supplemental Indenture) is directed to transfer from the Revenue Fund (including any amounts in the separate account described in the next paragraph) to the Bond Fund (1) an amount equal to the principal and interest due on such Interest Payment Date on the portion of any Bonds, the proceeds of which were used to make Grants and (2) if the amounts on deposit in the Bond Fund are insufficient for payments coming due with respect to the Bonds on such Interest Payment Date, an amount sufficient, together with amounts transferred from the Debt Service Account, to pay the principal and interest due on the Bonds on such Interest Payment Date.

At the conclusion of each Bond Fund Year, the Trustee is directed to retain in the Revenue Fund, in a separate account to be created therein (to the extent of amounts remaining in the Revenue Fund), the following:

- an amount equal to any deficiency in any account in the Agreement Reserve Fund;
- with respect to Agreements for which no Agreement Reserve Account was created in the Agreement Reserve Fund and a default in the payment of principal or interest under such Agreement has occurred and is continuing, an amount equal to the least of (1) ten percent (10%) of the proceeds of such Agreement, (2) maximum annual debt service on such Agreement and (3) 1.25 times average annual debt service on such Agreement; and
- with respect to Bonds issued to finance Grants and for which no other debt service reserve fund has been created, an amount equal to the least of (1) five percent of the proceeds of the Bonds issued to finance such Grant, (2) one-half of maximum annual debt service on the Bonds issued to finance such Grants and (3) 0.625 times average annual debt service on the Bonds issued to finance such Grant.

Pursuant to the Indenture, the NMFA is not required to contribute any amounts to fund the retention described in the preceding paragraph other than from amounts on deposit in the Revenue Fund at the end of each Bond Fund Year, and no default under the Indenture occurs solely by reason of any insufficiency of funds remaining in the Revenue Fund to fund such retention.

After making the foregoing deposits, at the conclusion of each Bond Fund Year, and after making the payments required by the Indenture during such Bond Fund Year, the Trustee is directed to transfer the balance on deposit in the Revenue Fund to the NMFA for deposit into the Subordinate Lien Revenue Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Outstanding Subordinate Bonds." After the moneys have been used for the purposes specified in the Subordinated Indenture (as defined below), the NMFA may use any remaining moneys for Public Project Revolving Fund purposes; redemption of Bonds prior to maturity by depositing the same into the Bond Fund; refinancing, refunding, purchasing or advance refunding of any Bonds; or any other lawful purpose.

The balance so transferred to the Subordinate Lien Revenue Fund is no longer pledged to the payment of debt service on the Bonds.

Application of Loan Prepayments

Covenants Applicable to the Series 2006D Bonds

The NMFA covenants pursuant to the Sixty-Seventh Supplemental Indenture, for the purpose of matching, to the extent practicable, (i) the revenues received from Loan Payments received pursuant to Loans reimbursed or originated with proceeds of the Series 2006D Bonds with debt service payable on Series 2006D Bonds, and (ii) the overall debt service requirements on the Outstanding Bonds and the Series 2006D Bonds with revenues received from Loan Payments on all outstanding Loans, to take any one or more of the following actions separately or in combination, within 365 days following the receipt of a Prepayment of a Loan financed with proceeds of Series 2006D Bonds:

For Prepayments funded with proceeds of bonds or another financing transaction the interest on which is intended by the Governmental Unit to be exempt from inclusion in gross income under the Internal Revenue Code (a

"Tax-Exempt Financing"), the NMFA must either (1) to the extent practicable, originate one or more new Loans in an aggregate principal amount equal to or greater than the amount of the portion of the Prepayment to be applied, and with a final maturity date and debt service requirements approximating, to the extent practicable, the final maturity date and debt service requirements for the portion of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be used to originate a new Loan or Loans), or (2) call for optional redemption Series 2006D Bonds that are subject to redemption in an aggregate principal amount equal to or greater than the amount of the Prepayment (or a pro rata portion thereof if a portion of the Prepayment is to be applied), and with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro rata portion thereof if a portion of the Prepayment is to be applied). See "THE 2006D BONDS - Redemption - Optional Redemption by the NMFA."

For Prepayments funded from sources other than a Tax-Exempt Financing, the NMFA must elect either of the options described in the previous paragraph, or must defease Series 2006D Bonds, in Authorized Denominations, to their first optional redemption date as described under the caption "THE 2006D BONDS - Redemption - Optional Redemption by the NMFA," in an amount approximating the Prepayment received (or a pro rata portion thereof if a portion of the Prepayment is to be applied). The principal amount and maturity date of Series 2006D Bonds to be defeased must correspond to the principal amount and due date of the Principal Component of such Prepayment.

The NMFA will recalculate the respective Loan Payments due under any Loan Agreement in the case of a partial Prepayment of Loan Payments under such Loan Agreement in a manner consistent with the actions taken.

Historical Prepayments

In the past five fiscal years, the NMFA received Prepayments in the numbers and aggregate principal amounts presented in the following table. Because prepayment of Loans by Governmental Units is optional for the Governmental Unit and because the Loan Payments that Governmental Units may prepay vary greatly in amount, the occurrence and aggregate principal amount of Prepayments in past fiscal years are not an indication of Prepayments to be received by the NMFA in future fiscal years.

Fiscal Year	Number of Prepayments	Aggregate Principal Amount
2000-01	1	$ 5,000
2001-02	4	4,535,000
2002-03	11	6,840,000
2003-04	16	10,303,000
2004-05	14	6,096,000
2005-06	8	2,681,000
2006-07[(1)]	2	1,090,000

(1) Includes payments received by the NMFA from July 1, 2006 through July 15, 2006.

Additional Bonds

Generally

Additional Bonds or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued or incurred, only if certain requirements have been met, including the following:

- The NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are presented below under "Cash Flow Statement."

- All payments required by the Indenture to be made into the Bond Fund must have been made in full.

- The proceeds of the Additional Bonds or other indebtedness, bonds or notes must be used (1) to refund Bonds issued under the Indenture or other obligations of the NMFA (including the funding of necessary reserves and the payment of costs of issuance) or (2) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance).

- No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds or other indebtedness, bonds or notes if (1) the issuance of such Additional Bonds or other indebtedness, bonds or notes otherwise complies with the requirements of the Indenture and (2) such Event of Default will cease to continue upon the issuance of the Additional Bonds or other indebtedness, bonds or notes and the application of the proceeds thereof.

Any of the foregoing requirements may be revised or deleted with written evidence from the Rating Agencies to the effect that such revision or deletion will not result in the rating on the Outstanding Bonds being lowered.

Cash Flow Statement

Pursuant to the Indenture, "Cash Flow Statement" is a certificate of the NMFA:

- setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (1) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (2) the terms of any Loans or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Senior Trust Estate upon or in connection with the filing of such certificate, and (3) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate, the following:

    - the amount of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

    - the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

    - the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding; and

- showing that in each such Bond Fund Year the aggregate of the NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds, divided by 1.35, plus the aggregate Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds, exceeds one hundred percent (100%) of the aggregate of the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding. For purposes of the foregoing, the following assumptions apply:

    - The NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12-month period during the 24 months next preceding the delivery of the Cash Flow Statement;

    - For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above;

- Loans and Additional Pledged Loans will be assumed to remain in their current category designations throughout the period projected in the Cash Flow Statement; and

- the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding.

For purposes of the Indenture and the Cash Flow Statement, "Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
Category I	100%
Category II	80%
Category III	50%
Category IV	0%

Category I Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the third highest full rating category or higher by the Rating Agencies.

Category II Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agencies.

Category III Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are designated or rated below the fourth highest full rating category by the Rating Agencies, but excluding Category IV Loans and Additional Pledged Loans.

Category IV Loans and Additional Pledged Loans consist of all Nonperforming Loans and Additional Pledged Loans, Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been replenished in accordance with the related Agreement, and Loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agencies.

Nonperforming Loans and Additional Pledged Loans consist of Loan Agreements, Securities and Additional Pledged Loans under which there have occurred and are continuing events of default (other than a covenant default) or under which delinquencies exists in payments of principal or interest thereunder.

"Rating Agencies" means Moody's Investors Service, Inc., Standard & Poor's and Fitch Ratings or its successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

Pursuant to the Indenture, at the time of issuance of each series of Bonds, each of the Agreements executed in connection with such issuance is required to be submitted to the Rating Agencies for assignment of a designation or rating or shall be designated in Category IV by the NMFA without submission to the Rating Agencies. In addition, each Additional Pledged Loan is required to be submitted to the Rating Agencies for assignment of a designation or a rating or shall be designated in Category IV by NMFA without submission to the Rating Agencies.

At any time (including upon issuance of Additional Bonds), the category assigned to an Agreement or to Additional Pledged Loans may be revised by the Rating Agencies.

Of the Agreements submitted to the Rating Agencies to date, \$431.2 million have been designated Category I, \$151.8 million have been designated Category II and \$9.8 million have been designated Category III.

The formula described in detail above can also be expressed as follows: If A equals Governmental Gross Receipts Tax, B equals Assumed Repayments of Loans and Additional Pledged Loans, and C equals Aggregate Annual Debt Service on all Bonds Outstanding, then Additional Bonds may be issued under the Indenture if:

$$(A \div 1.35) + B > C$$

No Senior Lien Obligation

No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Revenues for payment of the Bonds will be created or incurred without the prior written consent of the Owners of one hundred percent (100%) of the Outstanding Bonds.

Outstanding Parity Bonds

The following table presents the series of Public Project Revolving Fund Revenue Bonds that are currently outstanding under the Indenture:

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of July 15, 2006[1]
1996A & B	$21,125,000	$ 0
1997	8,585,000	435,000
1999A	13,135,000	7,900,000
1999B	3,025,000	1,445,000
1999C	2,265,000	970,000
1999D	4,875,000	2,620,000
2000A	4,715,000	1,650,000
2000B	7,670,000	1,030,000
2000C	28,850,000	2,420,000
2002A	55,610,000	26,885,000
2003A	39,945,000	32,788,000
2003B	25,370,000	23,545,000
2004A-1	28,410,000	23,710,000
2004A-2	14,990,000	13,720,000
2004B-1	48,135,000	43,420,000
2004B-2	1,405,000	1,260,000
2004C	168,890,000	157,785,000
2005A	19,015,000	18,095,000
2005B	13,500,000	13,320,000
2006B	38,260,000	38,260,000
Total Outstanding	$547,775,000	$411,258,000

(1) Bonds mature on June 1.

Source: Western Financial Group, LLC

See "ANNUAL DEBT SERVICE REQUIREMENTS" for Debt Service Requirements on the outstanding Bonds and aggregate payments under Agreements relating to the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Revenues" for a listing of the Governmental Units with Loan repayment obligations, based on scheduled payments in fiscal year 2005-06 and assuming no prepayment, expected to generate the highest percentages of estimated annual Revenues in fiscal year 2005-06.

Outstanding Subordinate Lien Bonds

Pursuant to a Subordinated General Indenture of Trust and Pledge between the NMFA and Bank of Albuquerque, N.A., as trustee, dated as of March 1, 2005 (the "Subordinated Indenture"), the NMFA may incur obligations that have a lien on the revenues from the NMFA Portion of the Governmental Gross Receipts Tax and the revenues from Additional Pledged Loans (collectively, the "Subordinate Lien Revenues") that is subordinate to the lien of the Indenture on those revenues.

The Subordinate Lien Revenues are released on June 1 of each year to the Subordinated Indenture where they are applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Subordinated Indenture. After such application, the Subordinate Lien Revenues may be released to the NMFA on June 16 of each year to be used for any lawful purpose.

Pursuant to the Subordinated Indenture, the NMFA has issued various series of bonds (the "Subordinate Lien Bonds"). The official statements for such Subordinate Lien Bonds are available at the Internet site http://www.munios.com. The following table sets forth the various series of Subordinate Lien Bonds and the original principal amount of Subordinate Lien Bonds outstanding as of July 15, 2006.

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of July 15, 2006[1]
2005C[2]	$ 50,395,000	$ 50,395,000
Taxable 2005D[2]	8,660,000	4,355,000
2005E	23,630,000	23,630,000
2005F	21,950,000	21,950,000
2006A	49,545,000	49,545,000
Total	$ 154,180,000	$149,875,000

(1) Bonds mature on June 15.

(2) The Series 2005C and Series 2005D Bonds were issued to refinance bonds issued in 2001 to finance a new Metropolitan Courthouse Complex located in downtown Albuquerque (the "Metro Court"). The FBI is currently investigating allegations of kickbacks in connection with the construction of the Metro Court. The NMFA does not expect that the investigation will impact the repayment of the Series 2005C Bonds or the Series 2005D Bonds.

Source: Western Financial Group, LLC

The Series 2006D Bonds have a lien on the Subordinate Lien Revenues senior to the lien securing the outstanding Subordinate Lien Bonds. The NMFA anticipates financing additional Subordinate Lien Bonds pursuant to the Subordinated Indenture in calendar year 2006.

Supplemental Indentures and Amendments to Agreements; Rating Agencies; Discretion

Pursuant to the Indenture, the NMFA and the Trustee may, without the consent of or notice to any of the Owners of the Bonds, enter into an indenture or indentures supplemental to the Indenture in order to make certain amendments or changes to the Indenture, including any amendment with the prior written confirmation from the Rating Agencies that such amendment will not result in the rating on the Bonds, following such amendment, being lower than the rating on the Bonds immediately prior to such amendment. In addition, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding may consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. See Appendix B - "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE - SUPPLEMENTAL INDENTURES."

In addition, the NMFA with the consent of the Trustee and the related Governmental Unit may, without the consent of any Owners of the Bonds, amend any Agreement including any amendments with the prior written confirmation from the Rating Agencies that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; or to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Series 2006D Bonds effective as of the date of issuance of the Series 2006D Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2006D Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2006D Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2006D Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2006D Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2006D Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2006D Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Bond Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2006D Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Series 2006D Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2006D Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty

Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2006D Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2006D Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$9,417,000,000** (unaudited) and statutory capital of approximately **$5,879,000,000** (unaudited) as of **March 31, 2006.** Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Series 2006D Bonds.

Ambac Assurance makes no representation regarding the Series 2006D Bonds or the advisability of investing in the Series 2006D Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;

2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;

4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006; and

5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information".**

THE PLAN OF FINANCING

Purposes of the Series 2006D Bonds

Proceeds of the Series 2006D Bonds will be used by the NMFA to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans"), (ii) purchase contemporaneously with the issuance of the Series 2006D Bonds its State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition) (the "2006A Bonds"), (iii) to purchase contemporaneously with the issuance of the Series 2006D Bonds, its State Building Tax Revenue Bonds, Series 2006B (Refunding Project) (the "2006B Bonds) and (iv) pay costs incurred in connection with the issuance of the Series 2006D Bonds. The Series 2006A Bonds will provide funds for purchasing, renovating, equipping and furnishing the Public Employees Retirement Building on Paseo de Peralta in Santa Fe, New Mexico (the "PERA Building"). The 2006B Bonds will provide funds to refund and defease the outstanding New Mexico Finance Authority State Office Building Tax Revenue Bonds, Series 2002A (the "2002A Bonds"). See Appendix G for a list of the Governmental Units and the outstanding balances of the Loans financed with the Bonds, including the Series 2006D Bonds. See Appendix H for information concerning the 2006A Bonds, the PERA Building and the 2006B Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2006D Bonds are presented in the following table.

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Estimated Sources and Uses of Funds

SOURCES:	
Par Amount	$56,400,000.00
Net Reoffering Premium	1,656,330.35
Accrued Interest	38,262.33
Transfers from Prior Issue	1,533,000.30
Total Sources:	$59,627,592.98
USES:	
Reimbursement of Public Project Revolving Fund[(1)]	$ 4,133,498.33
Acquisition Fund for PERA Building Project	25,000,000.00
Escrow Fund for Defeasance of the 2002A Bonds	29,713,124.09
Deposit to Debt Service Fund	38,262.33
Costs of Issuance[(2)]	742,708.23
Total Uses	$59,627,592.98

(1) Includes reimbursement of amounts used to make Loans and amounts deposited to Agreement Reserve Accounts related to certain Loans financed or refinanced with the Series.

(2) Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, trustee fees, underwriter's discount, bond insurance premiums, and other miscellaneous costs.

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ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2006D Bonds and all currently Outstanding Parity Bonds for each fiscal year through their respective final maturity dates.

Debt Service Requirements for the Bonds

	Series 2006D Bonds				
Fiscal Year	Principal[1]	Interest[2] [3]	Total[3]	Parity Bonds[3] [4]	Total Debt Service on Parity and Series 2006D Bonds
2007	$3,755,00	$2,073,818	$5,828,818	$43,714,527	$49,543,345
2008	860,000	2,585,913	3,445,913	42,866,112	46,312,025
2009	900,00	2,549,363	3,449,363	43,469,981	46,919,344
2010	920,000	2,511,113	3,431,113	43,243,544	46,674,657
2011	960,000	2,472,013	3,432,013	42,837,130	46,269,142
2012	1,005,000	2,431,213	3,436,213	43,899,056	47,335,269
2013	995,000	2,388,500	3,383,500	42,632,373	46,015,873
2014	990,000	2,338,750	3,328,750	39,685,326	43,014,076
2015	1,040,000	2,289,250	3,329,250	38,587,011	41,916,261
2016	1,095,000	2,237,250	3,332,250	35,392,643	38,724,893
2017	1,150,000	2,182,500	3,332,500	24,687,050	28,019,550
2018	1,205,000	2,125,000	3,330,000	23,037,955	26,367,955
2019	1,270,000	2,064,750	3,334,750	20,930,486	24,265,236
2020	1,335,000	2,001,250	3,336,250	19,174,849	22,511,099
2021	1,400,000	1,934,500	3,334,500	18,046,512	21,381,012
2022	1,475,000	1,864,500	3,339,500	16,407,805	19,747,305
2023	1,555,000	1,790,750	3,345,750	12,458,746	15,804,496
2024	2,100,000	1,713,000	3,813,000	10,529,377	14,342,377
2025	2,210,000	1,608,000	3,818,000	4,883,810	8,701,810
2026	2,325,000	1,497,500	3,822,500	4,262,344	8,084,844
2027	2,445,000	1,381,250	3,826,250	3,069,593	6,895,843
2028	2,300,000	1,259,000	3,559,000	1,741,568	5,300,568
2029	2,405,000	1,155,500	3,560,500	1,745,513	5,306,013
2030	2,530,000	1,035,250	3,565,250	1,547,216	5,112,466
2031	2,660,000	908,750	3,568,750	1,550,863	5,119,613
2032	2,800,000	775,750	3,575,750	1,523,458	5,099,208
2033	2,945,000	635,750	3,580,750	1,003,300	4,584,050
2034	3,095,000	488,500	3,583,500	966,750	4,550,250
2035	3,255,000	333,750	3,588,750	965,000	4,553,750
2036	3,420,000	171,000	3,591,000	971,250	4,562,250
Total	56,400,000	50,803,431	107,203,431	585,831,147	693,034,577

(1) Payable on June 1 of each year. Includes mandatory sinking fund payments.
(2) Payable on June 1 and December 1 of each year, commencing December 1, 2006.
(3) Figures are rounded to the nearest whole dollar; figures may not add due to rounding.
(4) Includes principal and interest.

Source: Western Financial Group, LLC

The following table shows estimated available Revenues pledged to the payment of the Bonds, total debt service requirements for the 2006D Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on fiscal year 2004-05 collections of the NMFA Portion of the Governmental Gross Receipts Tax and scheduled payments under the Agreements and Additional Pledged Loans, and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Revenues - The Governmental Gross Receipts Tax," "- The Agreements and the Agreement Pledged Revenues" and "-Additional Pledged Loans" for descriptions of the Revenues presented in the table under the headings "Governmental Gross Receipts Tax" and "Aggregate Pledged Borrower Payments."

Estimated Revenues, Annual Debt Service Requirements and Projected Coverage Ratios

Fiscal Year	Governmental Gross Receipts Tax [1]	Aggregate Pledged Borrower Payments[2] [3]	Estimated Total Revenues[3]	Total Debt Service Requirements[3]	Estimated Annual Coverage Ratios[4]
2007	$19,437,403	$52,446,843	$71,884,246	$49,543,345	1.45x
2008	19,437,403	47,868,639	67,306,042	46,312,025	1.45x
2009	19,437,403	48,938,594	68,375,997	46,919,344	1.46x
2010	19,437,403	49,761,116	69,198,519	46,674,657	1.48x
2011	19,437,403	49,690,670	69,128,073	46,269,142	1.49x
2012	19,437,403	49,553,117	68,990,520	47,335,269	1.46x
2013	19,437,403	48,622,536	68,059,939	46,015,873	1.48x
2014	19,437,403	45,334,044	64,771,447	43,014,076	1.51x
2015	19,437,403	44,500,336	63,937,739	41,916,261	1.53x
2016	19,437,403	40,004,224	59,441,627	38,724,893	1.53x
2017	19,437,403	30,878,789	50,316,192	28,019,550	1.80x
2018	19,437,403	28,705,127	48,142,530	26,367,955	1.83x
2019	19,437,403	26,403,007	45,840,410	24,265,236	1.89x
2020	19,437,403	25,132,226	44,596,629	22,511,099	1.98x
2021	19,437,403	22,494,633	41,932,036	21,381,012	1.96x
2022	19,437,403	22,003,065	41,440,468	19,747,305	2.10x
2023	19,437,403	16,726,454	36,163,857	15,804,496	2.29x
2024	19,437,403	15,185,349	34,622,752	14,342,377	2.41x
2025	19,437,403	9,220,856	28,658,259	8,701,810	3.29x
2026	19,437,403	8,357,599	27,795,002	8,084,844	3.44x
2027	19,437,403	7,040,319	26,477,722	6,895,843	3.84x
2028	19,437,403	5,342,851	24,780,254	5,300,568	4.68x
2029	19,437,403	5,347,844	24,785,247	5,306,013	4.67x
2030	19,437,403	5,144,828	24,582,231	5,112,466	4.81x
2031	19,437,403	5,151,606	24,589,009	5,119,613	4.80x
2032	19,437,403	5,118,803	24,556,206	5,099,208	4.82x
2033	19,437,403	4,593,327	24,030,730	4,584,050	5.24x
2034	19,437,403	4,551,829	23,989,232	4,550,250	5.27x
2035	19,437,403	4,559,312	23,996,715	4,553,750	5.27x
2036	19,437,403	4,563,896	24,001,299	4,562,250	5.26x
	583,122,090	733,241,839	1,316,363,929	693,034,577	

(1) Unaudited. Reflects GGRT collections from July 1, 2005 through June 30, 2006 on a cash basis.
(2) Include scheduled payments under Agreements and outstanding Additional Pledged Loans.
(3) Amounts are rounded to the nearest dollar.
(4) Calculated using the fiscal year 2005-06 NMFA Portion of the Governmental Gross Receipts Tax assuming that no Additional Bonds will be issued under the Indenture, and are subject to change.

Sources: NMFA and Western Financial Group LLC

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 31 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- to sue or be sued;
- to adopt and alter an official seal;
- to make and alter bylaws for its organization and internal management and to adopt, subject to the review and approval of the NMFA oversight committee, such rules as are necessary and appropriate to implement the provisions of the Act;
- to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the Act;
- to acquire, construct, hold, improve, grant or accept mortgages of, sell, lease, convey or dispose of real and personal property for its public purposes;
- to acquire, construct or improve real property, buildings and facilities for lease and to pledge rentals and other income received from such leases to the payment of bonds;
- to make loans and leases and to purchase securities and to contract to make loans and leases and to purchase securities;
- to make grants from the Water and Wastewater Project Grant Fund and Local Government Planning Fund to qualified entities to finance public projects;
- to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;
- to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA;
- to accept, administer, hold and use all funds made available to the NMFA from any sources;

- to borrow money and to issue bonds and provide for the rights of holders of the bonds;
- to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;
- to invest and reinvest its funds and to take and hold property as security for the investment of such funds;
- to employ attorneys, accountants, underwriters, financial advisers, trustees, paying agents, architects, engineers, contractors and such other advisers, consultants and agents as may be necessary and to fix and pay their compensation;
- to apply for and accept gifts or grants of property, funds, services or aid in any form from the United States, any unit of government or any person and to comply, subject to the provisions of the Act, with the terms and conditions of the gifts or grants;
- to maintain an office at any place in the state it may determine;
- subject to any agreement with bondholders to: (1) renegotiate any loan, lease or agreement; (2) consent to any modification of the terms of any loan, lease or agreement; and, (3) purchase bonds, which may upon purchase be canceled; and
- to do any and all things necessary or convenient to carry out its purposes and exercise the powers given and granted in the Act.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members, seven of whom are ex officio members designated in the Act and five of whom are appointed by the Governor with the advice and consent of the State senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the state. The seven ex officio members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the governor and the appointed members serve four-year terms. Vacancies are filled by appointment for the remainder of any unexpired term. Any member is eligible for reappointment.

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it:

- meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the Act and to review and approve regulations proposed for adoption;
- monitors and provides assistance and advice on the public project financing program of the NMFA;
- oversees and monitors State and local government capital planning and financing and takes testimony from State and local officials on State and local capital needs;
- provides advice and assistance to the NMFA and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects;

- undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and

- reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the "Legislature"), and makes available the report and proposed legislation on or before December 15 each year.

The Governor's Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003, to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. The Executive Order designates the Chief Executive Officer and Chairman of the NMFA as members of the Governor's Finance Council. The NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor's Finance Council.

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Governing Body and Key Staff Members

Current members of the NMFA, and their respective occupations and term expiration dates, are presented below:

Name	Occupation	Term Expires
Gary Bland[(1)]	State Investment Officer, State Investment Council	not applicable
John Carey[(2)]	President and CEO, Association of Commerce and Industry	01/01/08
Gustavo Cordova[(1)]	Executive Director, New Mexico Association of Counties	not applicable
Ron Curry[(1)]	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance[(2) (3)] (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	12/31/09
William Fulginiti[(1)] (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia[(2)]	President, Garcia Honda Albuquerque, New Mexico	01/01/09
Rick Homans[(1)]	Secretary, Economic Development Department, State of New Mexico	not applicable
Katherine B. Miller[(1)]	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Jennifer Taylor[(2)]	Associate Vice President for Business and Finance, New Mexico State University	12/31/07
Joanna Prukop[(1)] (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves[(2)] (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	01/01/08

(1) *Ex officio* member.
(2) Appointed by the Governor of the State.
(3) Pending confirmation by the New Mexico State Senate. Confirmation is expected to be considered during the next session of the State Legislature which commences in January, 2007.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2006D Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development consulting, and land development process consulting. He graduated from the University of Colorado at Boulder with a Master's Degree in Public Administration. In addition, Mr. Sisneros served as City Manager of Santa Fe, New Mexico; Town Manager of Taos, New Mexico; Assistant City Manager of Boulder, Colorado; and Administrative Assistant in Englewood, Colorado. In Santa Fe, Mr. Sisneros served on the Executive Board of St. Vincent Hospital, as President of the

Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., on the Board of Directors of Open Hands and of New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

Jerome L. Trojan, Chief Operating Officer. Mr. Trojan joined the NMFA in January 2005. He has extensive experience in local government, having served as Assistant City Manager for the Cities of Las Cruces, New Mexico and Mountlake Terrace, Washington, Administrative Services Director for Santa Fe, New Mexico, Finance Director for Las Cruces, New Mexico, and Finance Director for Bay City, Michigan. In addition, Mr. Trojan has experience in higher education, having held the position of the Vice Chancellor of Administration at the University of Alaska-Fairbanks and served as an Accountant at Delta Community College in Bay City, Michigan. A Certified Public Accountant, he graduated from Central Michigan University with a Master of Business Administration with a concentration in Finance and from Western Michigan University with a Bachelor of Business Administration, with a major in Accounting and a minor in Economics. Mr. Trojan has taken the required courses for a Doctorate in International Management from Nova Southeastern University. While at the City of Las Cruces, Mr. Trojan led the City's effort to reduce electric utility costs to the community. He is active in the International City Managers Association and was instrumental in the establishment of the New Mexico Finance Officers Association.

Joseph Gosline, Chief Financial Officer. Mr. Gosline joined the NMFA on October 24, 2005. Mr. Gosline has 15 years of experience in financial management. He previously worked with the NMFA for 5 1/2 years, leaving to work for one year at a financial company that primarily advises state and public agencies on housing bonds. His responsibilities include developing, recommending and implementing NMFA internal financial management programs; managing and supervising day-to-day administrative operations related to accounting; establishing control and procedures for account management, delinquency limits; and overseeing the preparation of tax reports annually, quarterly and monthly as required. Mr. Gosline holds a B.B.A. in accounting and a Master of Business Administration in finance from the College of Santa Fe.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 17 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for $203.5 million in financings for the NMFA. Mr. Turner earned from New Mexico State University a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration.

John Duff, Chief Investment Officer. Mr. Duff joined the NMFA in the newly–created position of Chief Investment Officer on February 13, 2006. Mr. Duff has more than 20 years experience in investment management, financial management, and public accounting experience. He has held positions as COO and CFO of publicly held corporations, and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. As Chief Investment Officer, Mr. Duff is responsible for management of the NMFA's investment portfolio. Mr. Duff has a B.A. degree in economics from Oberlin College and an M.B.A. from Miami University in accounting and finance.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

The Public Project Revolving Fund Program

General

The Act created the Public Project Revolving Fund (the "PPRF") Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of $1 million per project require specific legislative authorization. As of June 30, 2006, the NMFA had made 528 PPRF loans totaling $856,747,262.55. To implement the PPRF Program, the NMFA has been granted the following specific powers:

- to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;

- to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (1) a loan to a qualified entity, (2) a purchase or sale of securities individually or on a pooled basis, or (3) the performance of its duties and execution of any of its powers under the Act;

- to purchase, hold or sell securities at prices and in a manner the NMFA considers advisable, giving due consideration to the financial capability of the qualified entity, and sell securities acquired or held by it at prices without relation to cost and in a manner the NMFA considers advisable;

- to prescribe the form of application or procedure required of a qualified entity for a loan or purchase of its securities, fix the terms and conditions of the loan or purchase and enter into agreements with qualified entities with respect to loans or purchases;

- to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities, whether or not the loan is made or the securities purchased;

- to fix and establish terms and provisions with respect to: (1) a purchase of securities by the NMFA, including date and maturities of the securities; (2) redemption or payment before maturity; and (3) any other matters that in connection with the purchase are necessary, desirable or advisable in the judgment of the NMFA;

- to the extent permitted under its contracts with the holders of bonds of the NMFA, consent to modification of the rate of interest, time and payment of installment of principal or interest, security or any other term of a bond, contract or agreement of any kind to which the NMFA is a party;

- in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and

- to acquire fee simple, leasehold, mortgagor's or mortgagee's interests in real and personal property and to sell, mortgage, convey or lease that property for NMFA purposes; and

- in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

The 2006 Legislature authorized the NMFA to use the Public Project Revolving Fund to purchase bonds used to capitalize programs authorized by law and administered by the NMFA and to finance projects of non-profit or other support organizations affiliated with public institutions of higher education located in the state. The recipients of such loans originated with moneys in the PPRF will be required to repay the borrowed funds.

The Senior Lien Program

The NMFA is authorized to issue bonds pursuant to the Indenture to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. In connection with the issuance of Senior Bonds, the NMFA may enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Senior Bonds for projects. The NMFA has issued several series of its Senior Bonds since July 1995. The proceeds of such bonds were used to make loans and grants (or to reimburse the NMFA for making loans and grants) to numerous Governmental Units, including local governmental entities of the State, an Indian Nation, and departments and agencies of State government, for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds" for a list of series of outstanding Senior Bonds and a description of the revenues securing them.

The Subordinate Lien Program

The NMFA also is authorized to issue Bonds pursuant to the Subordinated Indenture to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. As in the senior lien program, the NMFA may, in connection with the issuance of Subordinate Lien Bonds, enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate Lien Bonds for projects. The NMFA has issued four previous series of Subordinate Lien Bonds. The proceeds of such Subordinate Lien Bonds were used to make loans for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Lien Debt" for a description of each series of outstanding Subordinate Lien Bonds and the revenues securing them.

Other Programs and Projects

The NMFA participates in or administers several other programs designed to provide financing to local governmental entities and state agencies for public projects. These programs and projects are described in Appendix F.

LITIGATION

To the knowledge of the NMFA, there is no controversy or litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2006D Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Revenues for the payment of the debt service on the Series 2006D Bonds or in any way contesting or affecting the validity or enforceability of the Series 2006D Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA and the office of the New Mexico Attorney General will deliver no-litigation certificates as to the foregoing prior to the issuance of the Series 2006D Bonds.

UNDERWRITING

Piper Jaffray & Co., Cabrera Capital Markets, Inc. and Ramirez & Co., Inc. (the "Underwriters") have agreed to purchase the Series 2006D Bonds from the NMFA pursuant to a Bond Purchase Agreement dated July 27, 2006 (the "Bond Purchase Agreement"), at an aggregate price of $57,794,876.38 (being the aggregate principal amount of the Series 2006D Bonds plus a net reoffering premium of $1,656,330.35, plus accrued interest of $38,262.33 and less underwriters' discount of $299,716.30). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2006D Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the Series 2006D Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

TAX MATTERS

Federal Income Tax

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2006D Bonds. The NMFA and the Governmental Units whose loans are being financed by the issuance of the Series 2006D Bonds have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2006D Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2006D Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and such Governmental Units with such requirements and restrictions in rendering its opinion regarding the tax-exempt status of interest on the Series 2006D Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2006D Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the Series 2006D Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D Bonds may otherwise affect a Bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and the Bondholder's other items of income or deduction. Said Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D Bonds.

Original Issue Premium

Certain of the Series 2006D Bonds are offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2006D Bond through reductions in the holder's tax basis for the Series 2006D Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Series 2006D Bond rather than creating a deductible expense or loss. Series 2006D Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount

Certain of the Series 2006D Bonds are offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. Original issue discount on a Series 2006D Bond accrues as tax-exempt interest periodically over the term of the Series 2006D Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2006D Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2006D Bondholders should consult their tax advisors for an explanation of the accrual rules.

State of New Mexico Income Tax

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, under laws of the State of New Mexico as currently enacted and construed, interest on the Series 2006D Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2006D Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions in substantially the forms included in Appendix D. Certain legal matters will be certified for the NMFA by the Office of the Attorney General for the State of New Mexico and be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, and for the Underwriters by Lewis and Roca LLP, Albuquerque, New Mexico. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA contained in this Official Statement.

FINANCIAL ADVISOR

The NMFA has retained Western Financial Group, LLC, as financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2006D Bonds. Western Financial Group, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

FINANCIAL STATEMENTS

The combined financial statements of the NMFA for the year ended June 30, 2005, included in Appendix A of this Official Statement, have been audited by Meyners & Company, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated December 9, 2005. Meyners & Company, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement. See "INTRODUCTION – Professionals Involved in the Offering."

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the NMFA's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the NMFA will execute and deliver a Continuing Disclosure Undertaking in connection with the issuance of the 2006D Bonds, pursuant to which it will agree to provide the following information:

- to each nationally recognized municipal securities information repository ("NRMSIR") by no later than March 31 of each fiscal year, or the next succeeding business day if March 31 is not a business day (and to the Trustee and to each holder of the 2006D Bonds who requests such information):

    - annual financial information and operating data concerning the NMFA Portion of the Governmental Gross Receipts Tax Revenues, such information to be of the type presented in the table captioned "Governmental Gross Receipts Tax Collections - Fiscal Years 2000-2001 Through 2004-2006," under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Revenues - The Governmental Gross Receipts Tax" in the Official Statement;

    - with respect to any Governmental Unit expected by the NMFA, on the last business day that is at least 45 days prior to the date specified for providing such information to each NRMSIR, to have Loan repayment obligations in the then-current fiscal year constituting more than twenty percent (20%) of the estimated Revenues for the then-current fiscal year (the "20% Test"), and each additional Governmental Unit designated by the NMFA by such day, information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement Pledged Revenues, or such shorter period for which such information is available; and

    - audited financial statements for the NMFA, any Governmental Unit meeting the 20% Test and each additional Governmental Unit designated by the NMFA or, if audited financial statements are not available by March 31 of each fiscal year, or the next succeeding business day if March 31 is not a business day, unaudited financial statements);

- in a timely manner to the Municipal Securities Rulemaking Board ("MSRB") and to each State information depository, if any, notice of a failure to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking; and

- in a timely manner to the MSRB and to a State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the 2006D Bonds, if material:

    - principal and interest payment delinquencies;

    - non-payment related defaults;

    - unscheduled draws on debt service reserves reflecting financial difficulties;

    - unscheduled draws on credit enhancements reflecting financial difficulties;

    - substitution of credit or liquidity providers, or their failure to perform;

    - adverse tax opinions or events affecting the tax-exempt status of the 2006D Bonds;

    - modification of rights of security holders;

    - bond calls;

    - defeasances;

    - release, substitution, or sale of property securing repayment of the 2006D Bonds; and

    - rating changes.

The NMFA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA, such other event is material with respect to the 2006D Bonds. However, the NMFA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The NMFA will provide its annual report to Digital Assurance Certification, L.L.C. ("DAC"), as dissemination agent, to file with each NRMSIR and with the State information depository, if any. The NMFA will provide the notices of material events to DAC to file with each NRMSIR or the MSRB, and with the State information repository, if any.

The NMFA reserves the right to modify from time to time the Continuing Disclosure Undertaking, including the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA; provided that, the NMFA has agreed that any such modification will be done in a manner consistent with the Rule. The NMFA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the 2006D Bonds and will be enforceable by the Owners; provided that the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA's obligations, and any failure by the NMFA to comply with the provisions of the undertaking will not be an event of default with respect to the 2006D Bonds.

Continuing disclosure undertaking previously entered into by the NMFA called for it to file certain annual financial information and operating data and audited financial statements for the NMFA and any Governmental Unit meeting the objective criteria described in those undertakings with each NRMSIR no later than 270 days after the end of each fiscal year. In September 2004, the NMFA discovered that for fiscal years 2000-01 and 2001-02 only the audited financial statements of the NMFA were filed with the NRMSIRs. For fiscal year 2002-03 annual financial information and operating data and audited financial statements for the NMFA were filed with each NRMSIR, but the audited financial statements for the Governmental Units meeting the objective criteria were not filed. On October 1, 2004, NMFA notified the MSRB of its failure to file the annual financial information and operating data and the audited financial statements for the Governmental Units meeting the objective criteria. The NMFA filed annual financial information and operating data and the audited financial statements for the City of Albuquerque, New Mexico and the Energy, Minerals and Natural Resources Department of the State of New Mexico on October 4, 2004. NMFA believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings.

No Governmental Unit currently is expected to have annual Loan repayment obligations exceeding twenty percent (20%) of estimated annual Revenues in the first full year following issuance of the 2006D Bonds.

RATINGS

Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Ratings Group ("S&P") and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aaa", "AAA" and "AAA", respectively, to the Series 2006D Bonds with the understanding that upon delivery of the Series 2006D Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2006D Bonds will be issued by Ambac Assurance Corporation. In addition, Moody's, S&P and Fitch have assigned underlying (i.e., without regard to a municipal bond insurance policy) long-term ratings of "Aa2", "AA" and "AA" respectively, to the Series 2006D Bonds. An explanation of the significance of such ratings may be obtained from Moody's, S&P and Fitch.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2006D Bonds and there is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings given to the Series 2006D Bonds may have an adverse effect on the market price of the Series 2006D Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2006D Bonds any proposed revision or withdrawal of the ratings on the Series 2006D Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information in this Official Statement is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained in this Official Statement do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated as such, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2006D Bonds.

APPROVAL BY THE NMFA

The distribution and use of the Official Statement by the Underwriters have been duly authorized and approved by the NMFA, and the Final Official Statement will be executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Chief Executive Officer.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance,
Chairman of the Board of Directors

By /s/ William C. Sisneros
William C. Sisneros,
Chief Executive Officer

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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NEW MEXICO FINANCE AUTHORITY

Financial Statements for the Year Ended June 30, 2005, and Independent Auditors' Report

Page

Year Ended June 30, 2005

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
John A. Carey, Member
Gustavo Cordova, Member
Ron Curry, Member
Ed Garcia, Member
James Jimenez, Member
Rick Homans, Member
James L. McDonough, Member
Joanna Prukop, Member
Craig Reeves, Member

Executive Director
William C. Sisneros

Chief Operations Officer
Jerome Trojan

Chief Financial Officer
Joseph Gosline

MEYNERS +
COMPANY, LLC
Certified Public Accountants/
Consultants to Business

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INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2005, and the respective changes in the financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general and special revenue funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Meyners + Company, LLC

December 9, 2005

The New Mexico Finance Authority's (Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

Financial Highlights

- The Authority's governmental net assets decreased by $17,559,070 in fiscal year 2005 from 2004.
- The Authority's program revenues decreased by $2,066,918 in fiscal year 2005 from 2004.
- The total cost of all Authority programs was $97,863,092, an increase of $8,865,382 over 2004.

Authority Highlights

The New Mexico Finance Authority, created in 1992, assists qualified entities in financing capital equipment and infrastructure projects at any stage of completion, from pre-planning through construction, by providing low-cost funds and technical assistance. It does so through its six main financing sources: Public Project Revolving Fund (PPRF), Water and Wastewater Grant Fund (W/WWGF), the Drinking Water Revolving Loan Fund (DWRLF), the Primary Care Capital Fund (PCCF), the Water Planning Fund, and State Buildings and Automation Project Financing. The Water Trust Fund is administered by the Authority and the Authority provides staff support to the Water Trust Board.

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2005, the PPRF program made approximately 58 loans totaling approximately $187.6 million, compared to 90 loans totaling approximately $115.2 million in FY2004.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2005, the DWRLF made five loans totaling $12.6 million compared to one loan totaling $1.8 million in FY2004. The FY2005 binding commitments numbered four, approximating $20.5 million, compared to seven totaling approximately $31.5 million in FY2004.

Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2005, the Authority Board has approved 14 loans totaling $7.75 million.

During FY2005, the Authority issued $237.9 billion in bonds to provide reimbursement to the Public Projects Revolving Loan Fund, refund the outstanding metro Court Bonds and provide financing for the UNM Health Sciences Center.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY2005, 30 grants closed for a total of $11,457,000, compared to 40 grants totaling $10,730,017 in FY2004.

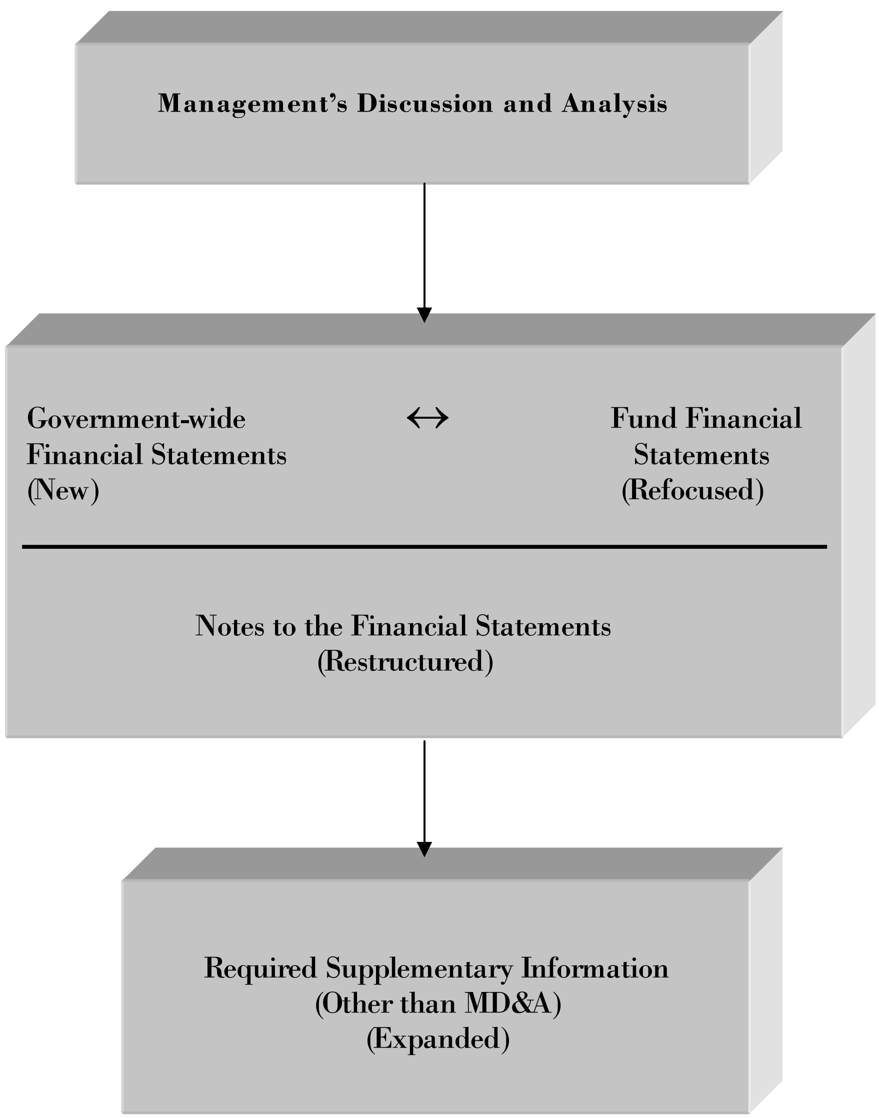
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Using This Annual Report

With the implementation of GASB #34, the presentation of the financial statements is significantly different from the previous general-purpose financial statements. The primary focus in State government's financial statements for the last twenty years or so, (summarized fund type information) has been discarded with implementation of GASB #34. The new focus is on both the Authority (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the Authority is one of several agencies within the State of New Mexico Government, the primary Government focus in this financial report is the Authority and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:

Using This Annual Report - continued



Management's Discussion and Analysis

MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it should provide an analysis of significant changes that occur in funds and significant budget variances.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Authority does not own a material interest in any infrastructure assets and, therefore, is not required to implement this portion of GASB #34.

Government-Wide Financial Statements - continued

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities - All of the Authority's stand-alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the Authority are the Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Behavioral Health Clinic Financing, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capital Improvement Financing and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities - The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the GRIP Administrative Fund and the General Operating Fund.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and proprietary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) are prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

- Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the costs of providing services including capital costs be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The fund classified as Proprietary or Enterprise funds are the General Operating Fund, the Public Projects Revolving Fund, the Drinking Water State Revolving Loan Fund, the Primary Care Capital Fund and the Behavioral Health Clinic Fund.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis Of The Authority As A Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2005. FY2005 net assets for Governmental Activities and Business-type Activities were ($60,978,165) and $159,955,266, respectively. Total Authority net assets for fiscal year 2005 are $101,472,809. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2005	2004	**2005**	2004	**2005**	2004
Current and other assets	$	**75,171,015**	122,103,991	**248,080,457**	165,606,355	**323,251,472**	287,710,346
Capital and non-current assets		**4,047,008**	5,465,722	**476,415,138**	316,295,820	**480,462,146**	321,761,542
Total assets		**79,218,023**	127,569,713	**724,495,595**	481,902,175	**803,713,618**	609,471,888
Current liabilities		**5,267,723**	12,212,900	**101,828,939**	105,575,960	**107,096,662**	117,788,860
Long-term liabilities		**134,928,465**	136,745,673	**459,805,324**	236,833,363	**594,733,789**	373,579,036
Total liabilities		**140,196,188**	148,958,573	**561,634,263**	342,409,323	**701,830,451**	491,367,896
Net Assets:							
Invested in capital assets		**118,808**	23,010	**140,719**	46,023	**259,527**	69,033
Restricted		**(61,096,973)**	(21,411,870)	**159,955,266**	138,667,438	**98,858,293**	117,255,568
Unrestricted		**-**	-	**2,354,989**	779,391	**2,354,989**	779,391
Total net assets		**(60,978,165)**	(21,388,860)	**162,861,332**	139,492,852	**101,883,167**	118,103,992
Total liabilities and net assets	$	**79,218,023**	127,569,713	**724,495,595**	481,902,175	**803,713,618**	609,471,888

Changes in Net Assets: The Authority's change in net assets for fiscal year 2005 was a decrease of $16,631,183 (Table A-2). A significant portion, twenty-eight percent (28%), of the Authority's revenue comes from Tax Revenue. Four percent (4%) comes from other operating grants and contributions, and seven percent (7%) from interest and investment income. Thirty-five percent (35%) comes from state general fund appropriations, and charges for services and other revenue comprise twenty-six percent (26%) of total revenue.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program	1,143,328	3,561,199	22,779,749	17,171,546	23,923,077	20,732,745
General	28,942,690	19,532,231	23,119,623	19,549,618	52,062,313	39,081,849
Total revenues	30,086,018	23,093,430	45,899,372	36,721,164	75,985,390	59,814,594
Expenses	72,279,123	71,484,073	24,656,082	17,513,637	96,935,205	88,997,710
Net revenues (loss) before transfers and reversions	(42,193,105)	(48,390,643)	21,243,290	19,207,527	(20,949,815)	(29,183,116)
Transfers and reversions	1,588,800	(999,821)	(1,588,800)	999,821	-	-
(Decrease) increase in net assets	(40,604,305)	(49,390,464)	19,654,490	20,207,348	(20,949,815)	(29,183,116)
Net assets, beginning of year	(20,373,860)	28,001,604	143,206,842	119,285,504	122,832,982	147,287,108
Net assets, end of year	$ (60,978,165)	(21,388,860)	162,861,332	139,492,852	101,883,167	118,103,992

Governmental-Type Activities

The Authority's total expenditures for governmental-type activities during the fiscal year were $73,207,010. The highest area of expenditures, $22,061,406, thirty percent (30%), was in the area of Debt Service.

The second highest area of expenditures within the Authority is in the category of Grant Expenses.

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $23,119,623. The majority of business-type expenditures, $16,715,207, seventy-three percent (73%), was in the area of Debt Service. Within the operating cost category, salaries and benefits comprised seven percent (7%) of total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were twenty percent (20%) of total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2005, the Authority had invested a total of $118,808 net of depreciation in business-type activities and $140,718 in fixed assets for government-type activities. During FY2005, capital outlay expenditures totaled $119,209. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

GASB #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The Authority does not own any infrastructure assets.

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2005, the total amount outstanding was $570 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

The Authority's uninsured bond ratings are:

Moody's	A1
Standard & Poor's	A-
Fitch	AA

There were no changes in bond ratings during the year ended June 30, 2005.

Economic Factors and Next Year's Budgets and Rates

The FY2005 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

- General operations of the Authority, funded from administration fees and cigarette tax revenue;
- Administration of the Water Trust Board, funded from the Water Project Fund:
- Administration of the Water Trust Board, funded from the Emergency Drought Relief Declarations;
- Water and Wastewater Grant Fund (W/WWGF) program operations, funded from the W/WWGF;
- Drinking Water Revolving Loan Fund (DWRLF) program operations, funded from the federal capitalization grant;
- PPRF Loan Servicing, funded from the PPRF;
- The Water and Wastewater Planning Fund (WPF), funded from the WPF;
- The Economic Development Fund, funded from administration fees and cigarette tax revenue.

The Authority's primary operating budget for FY2005 was $4,117,898, compared to the FY2004 budget of $2,699,446, a 52.5%increase.

Contacting the Authority's Financial Management

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

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
ASSETS				
Cash and cash equivalents (Note 2):				
Unrestricted	$	69,519,412	76,532,265	146,051,677
Restricted		3,617,440	109,062,082	112,679,522
Receivables:				
Tax revenue		1,865,951	4,820,218	6,686,169
Interest		18,054	3,707,575	3,725,629
Grant and other		31,350	2,790,877	2,822,227
Due from other state agencies		-	96,986	96,986
Due from other funds (Note 5)		-	2,060,560	2,060,560
Administrative fees receivable		-	291,097	291,097
Loans receivable, net of allowance (Note 3)		1,015,000	458,357,554	459,372,554
Securities (Note 4)		-	12,761,663	12,761,663
Restricted asset - escrow		-	47,544,110	47,544,110
Capital assets, net of depreciation (Note 7)		118,808	140,718	259,526
Deferred costs, net		3,032,008	6,314,710	9,346,718
Other assets		-	15,180	15,180
TOTAL ASSETS	$	79,218,023	724,495,595	803,713,618
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	$	495,732	999,801	1,495,533
Accured payroll, fringe benefits and compensated absences (Note 11)		162,151	177,155	339,306
Accrued interest payable		757,854	1,565,982	2,323,836
Debt service payable		111,140	38,387,390	38,498,530
Notes payable		2,000,000	-	2,000,000
Funds held for others		-	59,799,481	59,799,481
Due to other state agencies (Note 5)		-	579,416	579,416
Due to other funds		1,740,846	319,714	2,060,560
Bonds payable, current		10,564,000	24,813,000	35,377,000
Bonds payable, long-term (Note 8)		124,364,465	434,992,324	559,356,789
TOTAL LIABILITIES		140,196,188	561,634,263	701,830,451
NET ASSETS:				
Invested in capital assets (Note 7)		118,808	140,718	259,526
Restricted for:				
Debt service		22,158,186	-	22,158,186
Program funds		(83,255,159)	159,955,266	76,700,107
Unrestricted		-	2,765,348	2,765,348
TOTAL NET ASSETS		(60,978,165)	162,861,332	101,883,167
TOTAL LIABILITIES AND NET ASSETS	$	79,218,023	724,495,595	803,713,618

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
EXPENSES:				
Capital financing	$	72,279,123	24,656,082	96,935,205
PROGRAM REVENUES:				
Charges for services		-	19,799,701	19,799,701
Operating grants and contributions		1,143,328	2,980,048	4,123,376
TOTAL PROGRAM REVENUES		1,143,328	22,779,749	23,923,077
GENERAL REVENUES:				
Governmental gross receipts and gross receipts tax		-	20,998,900	20,998,900
Investment earnings		2,752,656	2,120,723	4,873,379
State General Fund appropriations		26,180,002	-	26,180,002
Other revenue		10,032	-	10,032
TOTAL GENERAL REVENUES		28,942,690	23,119,623	52,062,313
TRANSFERS		1,588,800	(1,588,800)	-
CHANGE IN NET ASSETS		(40,604,305)	19,654,490	(20,949,815)
NET ASSETS, BEGINNING OF FISCAL YEAR		(21,388,860)	139,992,965	118,604,105
Restatement of net assets (Note 16)		1,015,000	3,213,877	4,228,877
NET ASSETS, BEGINNING OF FISCAL YEAR, AS RESTATED		(20,373,860)	143,206,842	122,832,982
NET ASSETS, END OF FISCAL YEAR	$	(60,978,165)	162,861,332	101,883,167

AS OF JUNE 30, 2005

		Major Funds							
		Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wasterwater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Unrestricted:									
Cash and cash equivalents	$	3,160,269	3,142,321	15,097,298	53,726	15,979,554	29,385,998	2,700,246	69,519,412
Receivables:									
Tax revenue		846,723	127,913	500,000	-	-	-	391,315	1,865,951
Interest		-	-	-	-	-	-	18,054	18,054
Other		-	31,350	-	-	-	-	-	31,350
Loans receivable		-	-	-	-	-	-	1,015,000	1,015,000
		4,006,992	3,301,584	15,597,298	53,726	15,979,554	29,385,998	4,124,615	72,449,767
Restricted:									
Cash and cash equivalents held for others by trustee:									
Debt service		-	-	-	1,516,816	-	-	30,623	1,547,439
Bond reserve		-	505,738	-	-	-	-	197,963	703,701
Expense fund		-	-	-	-	-	-	-	-
Program - grant proceeds for other state agencies		-	102,078	-	-	-	-	-	102,078
Program - bond proceeds		-	902,322	-	-	-	-	361,900	1,264,222
		-	1,510,138	-	1,516,816	-	-	590,486	3,617,440
TOTAL ASSETS	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207
LIABILITIES:									
Accounts payable and accrued liabilities	$	-	-	321,568	239,529	3,655	5,792	87,339	657,883
Debt service payable		111,140	-	-	-	-	-	-	111,140
Notes payable		-	2,000,000	-	-	-	-	-	2,000,000
Funds held for others		-	-	-	-	-	-	-	-
Due to other state agencies		-	-	-	-	-	-	-	-
Due to other funds		1,275,482	-	-	-	19,850	53,573	391,941	1,740,846
TOTAL LIABILITIES		1,386,622	2,000,000	321,568	239,529	23,505	59,365	479,280	4,509,869
FUND BALANCES:									
Reserve for debt service		2,620,370	-	15,275,730	1,331,013	-	-	2,931,073	22,158,186
Special revenue funds		-	2,811,722	-	-	15,956,049	29,326,633	1,304,748	49,399,152
TOTAL FUND BALANCES		2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338
TOTAL LIABILITIES AND FUND BALANCES	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	71,557,338
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
The cost of capital assets is:		147,875
Accumulated depreciation is:		(29,067)
Total capital assets		118,808
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds		3,032,008
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term and other liabilities at year end consist of:		
Bonds payable, net of premium of $2,163,465		(134,928,465)
Accrued interest payable		(757,854)
Total long-term and other liabilities		(135,686,319)
Net assets of governmental activities (Statement of Net Assets)	$	(60,978,165)

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Major Funds							
	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wasterwater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	$ -	-	-	-	430,272	-	713,056	1,143,328
Interest on loans	-	-	-	-	-	-	-	-
Interest on investments	71,427	118,922	333,719	1,049,967	350,989	738,338	89,294	2,752,656
Other revenue	-	-	-	-	-	-	10,032	10,032
TOTAL REVENUES	71,427	118,922	333,719	1,049,967	781,261	738,338	812,382	3,906,016
EXPENDITURES:								
Current:								
Administrative fee	138,469	-	47,153	137,759	-	-	18,350	341,731
Professional services	6,915	12,315	1,428	19,774	72,056	170,269	237,035	519,792
Salaries and fringe benefits	-	-	-	-	92,755	70,303	64,914	227,972
In-state travel	-	-	-	-	6,865	3,765	2,073	12,703
Out-of-state travel	-	-	-	-	804	1,195	4,277	6,276
Maintenance and repairs	-	-	-	-	1,539	1,419	1,990	4,948
Operating costs	-	-	-	-	24,653	20,928	28,114	73,695
Grant expenses	-	-	-	-	1,538,946	10,999,193	561,732	13,099,871
Capital outlay	-	-	-	-	26,351	25,840	67,018	119,209
Debt service - principal	8,360,000	600,000	1,265,000	4,760,000	-	-	-	14,985,000
Debt service - interest	2,774,066	62,810	1,542,586	1,438,648	-	-	1,258,296	7,076,406
Bond issuance costs	-	-	-	458,461	-	-	772,615	1,231,076
TOTAL EXPENDITURES	11,279,450	675,125	2,856,167	6,814,642	1,763,969	11,292,912	3,016,414	37,698,679
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,208,023)	(556,203)	(2,522,448)	(5,764,675)	(982,708)	(10,554,574)	(2,204,032)	(33,792,663)
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	10,000,000	-	-	-	10,000,000
State General Fund appropriations	6,495,663	1,242,405	6,000,000	10,271,553	-	-	2,170,381	26,180,002
Transfers (to) from other funds	2,317,181	(666,461)	-	-	(57,870)	(49,355)	45,305	1,588,800
Transfer to other state agencies	(1,728,888)	(94,150)	(4,666,706)	(43,734,149)	-	-	(738,571)	(50,962,464)
NET OTHER FINANCING SOURCES (USES)	7,083,956	481,794	1,333,294	(23,462,596)	(57,870)	(49,355)	1,477,115	(13,193,662)
NET CHANGE IN FUND BALANCES	(4,124,067)	(74,409)	(1,189,154)	(29,227,271)	(1,040,578)	(10,603,929)	(726,917)	(46,986,325)
FUND BALANCES, June 30, 2004	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	3,947,738	117,528,663
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	1,015,000	1,015,000
FUND BALANCES, June 30, 2004, as restated	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,962,738	118,543,663
FUND BALANCES, June 30, 2005	$ 2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338

See Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2005

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$ (46,986,325)
Amounts reported for governmental activities in the Statement of Activities are different because:	
In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease in the liabilities for the fiscal year was:	
Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Bond obligations were increased during the current fiscal year by:	(10,000,000)
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities these payments are reported as a reduction of the liability. In the current period, these amounts were:	
Principal payments	14,985,000
Other reductions (prepayments, etc.)	412,999
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was:	95,831

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

Change from prior year in amortization of bond issuance costs:		
Deferred issuance costs FY04 (p. 15 PY)	$ 4,942,712	
Deferred issuance costs FY05 (p. 17 CY)	3,032,008	
		$ (1,910,704)
Change from prior year in amorization of bond premium/discount		
Amortization of bond premium/discount FY04 (p. 58 PY)	4,351,673	
Amortization of bond premium/discount FY05 (p. 61 CY)	2,163,464	
		2,188,209
Reclassification of fund type:		(500,113)
In the prior year, Behavioral Health Clinic Fund was a governmental fund. In the current year, it is an enterprise fund. The $500,113 represents the prior year fund balance.		
Prior period restatement of fund balance		1,015,000
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:		
Capital outlay		119,209
Depreciation expense		(19,869)
Adjustments/Deletions		(3,542)
Excess of capital outlay over depreciation expense		95,798
Change in net assets of governmental activities		
(Statement of Activities)		$ (40,604,305)

AS OF JUNE 30, 2005

		Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
ASSETS:									
Current:									
Cash and cash equivalents	$	106,734	68,618,877	6,279,814	1,467,353	-	59,487	-	76,532,265
Receivables:									
Tax revenue		-	4,793,654	3,460	-	23,104	-	-	4,820,218
Interest		-	3,580,267	127,308	-	-	-	-	3,707,575
Grant and other		139,005	130,412	2,521,460	-	-	-	-	2,790,877
Due from other state agencies		-	24,069	-	72,917	-	-	-	96,986
Due from other funds		785,078	1,275,482	-	-	-	-	-	2,060,560
Administrative fees receivable		-	276,038	15,059	-	-	-	-	291,097
Total current assets		1,030,817	78,698,799	8,947,101	1,540,270	23,104	59,487	-	90,299,578
Loans receivable, net of allowance		-	435,730,919	16,812,533	-	5,353,237	460,865	-	458,357,554
Securities		-	12,761,663	-	-	-	-	-	12,761,663
Restricted assets - cash and cash equivalents		-	97,435,630	9,350,941	-	2,266,477	9,034	-	109,062,082
Escrow		-	47,544,110	-	-	-	-	-	47,544,110
Capital assets:									
Depreciable property and equipment, net		43,655	36,132	27,339	33,592	-	-	-	140,718
Deferred issuance costs, net		-	6,314,710	-	-	-	-	-	6,314,710
Other assets		15,180	-	-	-	-	-	-	15,180
TOTAL ASSETS	$	1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595
LIABILITIES:									
Accounts payable and other liabilities	$	38,744	799,574	156,614	342	-	-	4,527	999,801
Accrued payroll, fringe benefits and compensated absences		158,331	12,246	3,410	3,168	-	-	-	177,155
Accrued interest payable		-	1,565,982	-	-	-	-	-	1,565,982
Debt service payable		-	36,970,234	1,417,156	-	-		-	38,387,390
Funds held for others		-	58,297,200	1,433,504	-	60,854	7,923	-	59,799,481
Due to other state agencies		-	-	579,416	-	-	-	-	579,416
Due to other funds		-	238,986	46,284	30,692	-	-	3,752	319,714
Bonds payable, current		-	-	-	-	-	-	-	-
Bonds payable, long-term		-	459,805,324	-	-	-	-	-	459,805,324
TOTAL LIABILITIES		197,075	557,689,546	3,636,384	34,202	60,854	7,923	8,279	561,634,263
NET ASSETS:									
Invested in capital assets		43,656	36,132	27,339	33,592	-	-	-	140,719
Restricted for:									
Debt service		-	-	-	-	-	-	-	-
Program funds		-	120,796,285	31,474,191	-	7,581,964	521,463	(8,279)	160,365,624
Unrestricted		848,921	-	-	1,506,068	-	-	-	2,354,989
TOTAL NET ASSETS		892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332
TOTAL LIABILITIES AND NET ASSETS	$	1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

		Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
INTEREST EARNINGS:									
Interest on loans	$	-	16,047,183	388,795	-	-	18,656	-	16,454,634
Interest on investments		37,129	1,669,370	243,409	8,623	161,193	999	-	2,120,723
									-
TOTAL INTEREST EARNINGS		37,129	17,716,553	632,204	8,623	161,193	19,655	-	18,575,357
INTEREST EXPENSE:									
Debt service - interest expense		-	16,715,207	-	-	-	-	-	16,715,207
NET INTEREST EARNINGS		37,129	1,001,346	632,204	8,623	161,193	19,655	-	1,860,150
NON-INTEREST EARNINGS:									
Tax revenue		-	20,998,900	-	-	-	-	-	20,998,900
Federal grant revenue		-	-	2,980,048	-	-	-	-	2,980,048
Revolving loans grant revenue		-	-	-	-	-	-	-	-
Administrative fees		1,344,184	275,978	87,008	1,636,202	-	1,695	-	3,345,067
TOTAL NON-INTEREST EARNINGS		1,344,184	21,274,878	3,067,056	1,636,202	-	1,695	-	27,324,015
NON-INTEREST EXPENSE:									
Grant expense		-	1,468,698	-	-	-	-	-	1,468,698
Bond issuance costs		-	288,374	-	-	-	-	-	288,374
Administrative fee		-	-	-	-	-	-	-	-
Professional services		192,978	-	181,725	95,063	1,913	-	8,238	479,917
Loan interest expense		-	187	-	-	-	-	-	187
Salaries and fringe benefits		963,338	482,469	134,170	144,552	-	-	-	1,724,529
Technical set-aside expense		-	-	1,588	-	-	-	-	1,588
In-state travel		11,490	14,712	3,049	4,839	-	-	(13)	34,077
Out of state travel		15,946	10,449	6,898	7,166	-	-	-	40,459
Maintenance and repairs		9,952	5,040	4,323	1,887	-	-	-	21,202
Supplies		30,921	50	5,608	3,065	-	-	-	39,644
Operating costs		151,646	983,643	65,744	25,399	-	-	54	1,226,486
Depreciation		19,869	13,106	7,253	5,526	-	-	-	45,754
TOTAL NON-INTEREST EXPENSE		1,396,140	3,266,728	410,358	287,497	1,913	-	8,279	5,370,915
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS		(14,827)	19,009,496	3,288,902	1,357,328	159,280	21,350	(8,279)	23,813,250
TRANSFERS:									
Transfers in (out)		742,761	(9,519,577)	7,186,103	-	1,913	-	-	(1,588,800)
Transfer from (to) other state agencies		-	-	(2,569,960)	-	-	-	-	(2,569,960)
TOTAL TRANSFERS		742,761	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,760)
CHANGE IN NET ASSETS		727,934	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,490
TOTAL NET ASSETS, June 30, 2004		164,643	108,128,621	23,596,485	182,332	7,420,771	500,113	-	139,992,965
Restatement of net assets		-	3,213,877	-	-	-	-	-	3,213,877
TOTAL NET ASSETS, June 30, 2004, as restated		164,643	111,342,498	23,596,485	182,332	7,420,771	500,113	-	143,206,842
TOTAL NET ASSETS, June 30, 2005	$	892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Cash paid for employee services	$ (928,263)	(482,469)	(140,944)	(267,846)	-	-	-	(1,819,522)
Cash paid to vendors for services	(606,117)	(2,130,774)	(30,516)	(106,385)	(1,913)	-	-	(2,875,705)
Bond issuance costs	-	(288,374)	-	-	-	-	-	(288,374)
Interest expense paid	-	(15,964,478)	-	-	-	-	-	(15,964,478)
Grants awarded	-	(482,469)	2,554,902	-	-	-	-	2,072,433
Tax revenue	-	18,156,955	-	-	-	-	-	18,156,955
Cash received from federal government for revolving loans	-	-	-	-	-	-	-	-
Interest income received	37,129	17,063,202	632,204	8,623	138,089	19,655	-	17,898,902
Administrative fees received	671,211	-	47,622	1,872,079	-	1,695	-	2,592,607
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:								
Operating transfers, net	742,818	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,703)
Cash paid to subrecipients for services	-	3,120,704	-	-	-	-	-	3,120,704
Cash provided (used) by funds held for others	-	-	(5,847,856)	-	(399,896)	(51,486)	-	(6,299,238)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	742,818	(6,398,873)	(1,231,713)	-	(397,983)	(51,486)	-	(7,337,237)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Securities	-	(1,022,154)	-	-	-	-	-	(1,022,154)
Escrow	-	(47,544,110)	-	-	-	-	-	(47,544,110)
Loans funded	-	(181,046,966)	-	-	-	-	-	(181,046,966)
Loan payments received	-	32,478,397	2,738,514	-	310,974	39,135	-	35,567,020
Bonds issued	-	227,945,000	-	-	-	-	-	227,945,000
Payment of bonds	-	(20,862,967)	(23,095)	-	(13,487)	(23,388)	-	(20,922,937)
Debt service	-	16,744,909	-	-	-	-	-	16,744,909
Fixed asset purchases	(41,160)	(34,437)	(26,663)	(39,118)	-	-	-	(141,378)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(41,160)	26,657,672	2,688,756	(39,118)	297,487	15,747	-	29,579,384
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(124,382)	36,130,392	4,520,311	1,467,353	35,680	(14,389)	-	42,014,965
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2004	231,116	129,924,115	11,110,444	-	2,230,797	82,910	-	143,579,382
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2005	$ 106,734	166,054,507	15,630,755	1,467,353	2,266,477	68,521	-	185,594,347
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:	727,935	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,491
Adjustments to operating income:								
Depreciation and amortization	19,869	13,106	7,253	5,526	-	-	-	45,754
Bad debt expense	-	-	-	-	-	-	-	-
Net transfers	(742,818)	9,519,577	(4,616,143)	-	(1,913)	-	-	4,158,703
(Increase) decrease in prepaids and receivables	(680,543)	(4,513,515)	(464,532)	235,877	(23,104)	-	-	(5,445,817)
Increase (decrease) in payables and other accrued liabilities	(150,483)	1,362,506	231,645	(92,260)	-	-	8,279	1,359,687
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818

See Notes to Financial Statements.

AS OF JUNE 30, 2005

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	619,764,448
Expense funds		1,539,634
Bond reserve funds		41,644,551
TOTAL ASSETS	$	662,948,633
LIABILITIES:		
Accounts payable	$	1,319,225
Debt service payable		41,864,960
Funds held for the New Mexico Department of Transportation		619,764,448
TOTAL LIABILITIES	$	662,948,633

See Notes to Financial Statements.

NATURE OF ORGANIZATION

The Laws of 1992, Chapter 61, as amended, created the New Mexico Finance Authority (Authority). The purpose of the New Mexico Authority Act (Act) is to create a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

The Authority's governing board is composed of twelve members. The State Investment Officer; the Secretary of the Department of Finance and Administration; the Secretary of Economic Development; the Secretary of Energy, Minerals and Natural Resources; the Secretary of the Environment Department; the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the Authority with voting privileges. The Governor, with the advice and consent of Senate, appoints to the Authority Board, the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

The Attorney General's Opinion dated December 23, 1992, concludes that the Authority is an agency of the state at least for certain purposes. The Opinion subjects the Authority to the Open Meetings Act and concludes that the rates and basis for reimbursement under the Per Diem and Mileage Act apply to Authority members. The Opinion excludes the Authority from other sections of the Per Diem and Mileage Act, the Procurement Code and DFA vouchering requirements.

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.

The Authority is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental make-up of the Authority's governing board; sources of tax revenue and its ability to issue tax-exempt debt.

NATURE OF ORGANIZATION - continued

The financial reporting entity as defined by GASB No. 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The Authority has implemented the provisions of GASB No. 34. As a part of this statement, there is a reporting requirement regarding the local government's infrastructure (roads, bridges, etc.) The Authority does not own any infrastructure assets and, therefore, is unaffected by this requirement.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basic Financial Statements***

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis by column, and is reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

♦ ***Government-wide and Fund Financial Statements***

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Government-wide and Fund Financial Statements - continued***

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

The Government-wide financial statements are prepared using the economic resources measurement focus and the accrued basis of accounting. The fund financial statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

♦ ***Basis of Presentation - Fund Accounting***

The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

The following fund types and account groups are used by the Authority:

Governmental Fund Types - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

Special Revenue Fund - State Building Program-Cigarette Tax. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico cigarette taxes, for the purpose of financing building projects in New Mexico. Section 7-1-6.11, NMSA, 1978 Compilation, provides for a distribution to the Authority of seven and one-eighth percent of the net receipts attributable to the cigarette tax, with the first distribution made as of August 1, 1993. The cigarette tax monies were used by the Authority to finance the construction of a cancer research center and sell revenue bonds in compliance with the New Mexico Finance Authority Act, in the amount of six million dollars ($6,000,000) for the purpose of designing, constructing, equipping and furnishing an addition to the Cancer Center at the University of New Mexico. The bonds were issued on July 11, 1996. The cigarette tax proceeds distributed to the New Mexico Finance Authority pursuant to Section 7-1-6.11 NMSA 1978 are appropriated to the Authority to be pledged irrevocably for the payment of the principal or interest on the bonds, or any payments for refunding or redemption premiums on the bonds, and for payment of the costs incurred by the Authority related to authorization, issuance and sale of the bonds.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

Special Revenue Fund - State Building Program-Cigarette Tax - continued. The Laws of 1993, Chapter 358, authorizes funds in the State Building Program-Cigarette Tax, in excess of the amount necessary for payment of principal and interest on outstanding bonds and necessary reserves or sinking funds, to be transferred to any other account of the Authority as needed for purposes of the New Mexico Finance Authority Act.

Special Revenue Fund - Water and Wastewater Project Grant Fund. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

Special Revenue Fund - Water Project Fund. This fund was created with the passage of Senate Bill 169 during the 2001 Legislative Session. The purpose of this fund is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of water. The Water Project Fund was created in the Authority and consists of distributions made from the Water Trust Fund and payments of principal and interest on loans approved for water projects. The fund also consists of any other money appropriated, distributed or otherwise allocated to the fund for the purpose of supporting water projects pursuant to the provisions of the Water Projects Finance Act.

Special Revenue Fund - Water and Wastewater Planning Grant Fund. The 2002 New Mexico Legislature authorized the Authority to establish the new Water and Wastewater Planning Grant fund. This fund will provide grant money to qualified entities on a sliding scale for the creation of planning documents such as preliminary engineering reports, feasibility studies and master plans. Each grant must not exceed $25,000 and must be repaid if the project in the planning document eventually receives funding. The initial capitalization of $1 million was provided from the 2002A PPRF revenue bonds issued on July 2, 2002.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Special Revenue Funds - continued

Special Revenue Fund - Emergency Drought Water Program. Executive Order 02-19 declared a statewide drought disaster due to the severe statewide drought conditions. The Water Trust Board has been designated as the coordinator of all assistance requests from public water systems during the drought. Based on initial requests, the Water Trust Board may direct a strike team to investigate the water problem. Strike team members include State Engineer's personnel and other technical personnel as deemed necessary. The strike team will assess the situation and provide the Water Trust Board with an action plan to immediately alleviate the problem through the next legislative session. If the action plan implementation is beyond local control and requires the resources of the State, the Water Trust Board will recommend the project to the Governor for disaster funding. Each emergency disaster declaration by the Governor will release $750,000 in funding to alleviate the emergency conditions.

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

Debt Service Fund - Workers' Compensation Financing Fund. This fund accounts for the proceeds from bonds, the debt service requirements of the bonds and receipts from the State of New Mexico workers' compensation assessments, for the purpose of financing an office building for the Workers' Compensation Administration.

The Laws of 1993, Chapter 367, Section 73, effective April 8, 1993, as amended by the Laws of 1994, Chapter 91, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $3,500,000 for planning, designing, constructing, equipping and furnishing a state office building for the Workers' Compensation Administration that complies with the Americans with Disabilities Act of 1990. The 1994 amendment authorized the Authority to issue and sell additional revenue bonds in an amount not to exceed $2,500,000 when the property control division of the General Services Department certifies the need for issuance of the bonds. The bond proceeds are for acquiring land and making site improvements for the aforementioned state building. The parties have entered into a joint power agreement to accomplish this purpose. A total of $4,310,000 of bonds were issued during July 1996. The first $.40 of the workers' compensation assessment imposed pursuant to Section 52-5-19, NMSA, 1978 is distributed to the Authority and is appropriated to be pledged irrevocable for payment of principal, interest, any premium and expenses related to the issuance and sale of the bonds. Revenue distributed to the Authority shall be deposited in a special bond fund or account and any money remaining in the fund at the end of calendar quarter, after all current obligations and any sinking fund requirements are met, shall be transferred to the workers' compensation administration fund upon request. Also, according to the joint powers agreement in effect, any surplus bond proceeds and interest will be used for the project.

Upon payment of all principal and interest and any other obligations or expenses related to issuance of the bonds, the Authority shall certify to the Taxation and Revenue Department that all obligations have been fully discharged and direct the Department to cease payments of workers' compensation assessment fee revenue to the Authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Basis of Presentation - Fund Accounting - continued

Debt Service Funds - continued

Debt Service Fund - State Capitol Improvement Financing Fund. The Laws of 1997, Chapter 178, authorized the Authority to issue and sell revenue bonds in an amount not to exceed $10,155,000 for the purpose of repairing, remodeling, constructing and equipping a state building located adjacent to the State Capitol in Santa Fe known as the New Mexico State Library, and for relocation-associated renovations in the State Capitol. A total of $510,000 of revenue bonds were issued on May 17, 1999 and $8,805,000 of revenue bonds were issued on June 1, 1999, for a total outstanding of $9,315,000. Monthly, all income and distributions creditable to the capitol buildings repair fund shall be distributed by the State Treasurer to the Authority, and are appropriated to the Authority to be pledged irrevocable for the payment of the bonds.

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

- ***Basis of Presentation - Fund Accounting - continued***

Debt Service Funds - continued

Debt Service Fund - State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issue revenue bonds for the financing of acquisition, construction, equipping and otherwise improving land and buildings for the General Services Department of the State of New Mexico. The initial project consists of 1) purchasing the National Education Association Building on South Capitol Street in Santa Fe, New Mexico, 2) paying the costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico, and 3) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico. In addition, to the extent proceeds of the Bonds are not used for the projects listed in the preceding sentence, the Project may include the acquisition of the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, New Mexico. The General Services Department of the State is responsible for obtaining any required approvals to proceed with the project and to negotiate the purchases of a portion of the project and to pursue the completion of the project. The Director of the Property Control Division of the General Services Department has certified that the project is needed and can be completed within a reasonable time. Planning and negotiations have begun by the Property Control Division to complete the project.

Debt Service Fund - UNM Health Sciences. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ ***Basis of Presentation - Fund Accounting - continued***

Proprietary Fund Types - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The Authority does not apply FASB pronouncements issued after November 30, 1989, to its proprietary funds or business-type activity accounting. The only proprietary fund types the Authority has are enterprise funds.

Enterprise Funds - Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is a) financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The enterprise funds are as follows:

Enterprise Fund - Operating Fund. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Enterprise Funds - continued

Enterprise Fund - Primary Care Capital Fund - continued. for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (see Note 12).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Measurement Focus and Basis of Accounting***

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2005, was $23,791,613.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Measurement Focus and Basis of Accounting - continued***

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for interest and fees. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

♦ ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on deposit with the New Mexico State Treasurer, Wells Fargo and with banks acting as bond trustees. Cash in the various programs on deposit with the State Treasurer is invested by the New Mexico State Treasurer in the "overnight" repurchase program.

For pooled funds on deposit with the New Mexico State Treasurer, interest is credited to the various programs based on the program's average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

Money in all funds of the Authority may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State, or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

♦ ***Securities***

The Authority has purchased State of New Mexico Department of Energy, Minerals and Natural Resources, Jemez Springs, and New Mexico Interstate Stream Commission bonds that are recorded at cost, which approximates market value.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Loans***

Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All significant loans are to governmental entities secured by tax revenue or are loaned to other entities, which are repaying the loans in accordance with their loan agreements. There are no material loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on non-accrual status.

♦ ***Allowance for Loan Losses***

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. The Authority has not experienced any losses on its loan portfolio.

♦ ***Restricted Assets***

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

♦ ***Budgets and Budgetary Accounting***

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Capital Assets***

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $1,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

♦ ***Income Taxes***

The Authority is a tax-exempt, quasi-governmental organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Authority is subject to other Internal Revenue Code sections relating to the tax-exempt status of the bonds issued by the Authority.

♦ ***Compensated Absences***

Full-time employees are entitled to fifteen days vacation leave with ten years or less employment with the Authority. Employees with more than ten years receive twenty days. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid vacation leave as of the date of termination.

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

♦ ***Cash Flows***

For purposes of the Statement of Cash Flows, the various funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Bond Discounts, Premiums and Issuance Costs***
In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

♦ ***Fund Equity***
Reserves represent those portions of fund equity appropriated or legally segregated for a specific future use. Debt service fund balances are reserved based on the language in the trust agreements, which require the bond proceeds be used for the specific purposes of the fund. Special revenue funds are reserved based on the statutory or bond trust restrictions.

♦ ***Net Assets***
The government-wide and business type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in fixed assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority has no capital asset related debt.

Restricted assets are liquid assets that have third-party (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Authority spends restricted resources first.

Unrestricted assets represent liquid assets.

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Interfund and Interagency Transactions***

Interfund and interagency transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE*

Funds held for others and short-term investments are held at the trustees in the names of the applicable government entity and the Authority. The repurchase agreements are overnight only. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	163,405,760	163,405,760
Money market accounts invested in American Performance U.S. Treasury Fund		88,049,119	88,049,002
Repurchase agreements		7,169,586	7,169,586
Wells Fargo operating accounts		106,734	84,745
	$	258,731,199	258,709,093
Agency Fund:			
Money market accounts invested in FNMA	$	41,644,552	41,644,552
Money market accounts invested in American Performance U.S. Treasury Fund		1,539,633	1,539,633
Money market accounts invested in Citigroup U.S. Treasury Fund		593,358,611	593,358,611
State Treasurer Repurchase Agreement		26,405,837	26,405,837
	$	662,948,633	662,948,633

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

The New Mexico State Treasurer's Office is responsible for ensuring that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States, are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

Funds held for others by trustees represent funds held by financial institutions as trustees and paying agents for the Authority for its various bond issues. The sources of funds are financing program bond proceeds, pledged revenues and other debt service requirements. These funds are invested in short-term money market accounts that invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations.

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

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES*

Loan receivable balances consist of the following at June 30, 2005:

Enterprise funds:		
Public Project Revolving Loan Fund	$	436,127,272
Allowance for loan losses		(396,353)
		435,730,919
Primary Care Capital Fund		5,353,237
Drinking Water State Revolving Loan Fund		16,812,533
Behavioral Health Fund		460,865
	$	458,357,554

♦ ***Public Project Revolving Loan Fund***

The Public Project Revolving Loan Fund loans receivable balance at June 30, 2005 is $436,127,272 and consists of loans made to various entities.

Terms for the Public Project Revolving Loans vary with interest rates ranging from 3% to 6%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	46,233,909	14,437,791	60,661,700
July 1, 2006 to maturity		389,893,363	123,486,152	513,379,515
	$	436,127,272	137,913,943	574,041,215

♦ ***Primary Care Capital Fund***

Terms for each loan vary with interest rates at 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year end.

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	407,477	153,176	560,653
July 1, 2006 to maturity		4,945,760	899,217	5,844,977
	$	5,353,237	1,052,393	6,405,630

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ ***Primary Care Capital Fund - continued***

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

♦ ***Drinking Water State Revolving Loan Fund***

Terms for the Drinking Water State Revolving loans vary with interest rates ranging from 0% to 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedules after year-end:

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	991,630	354,167	1,345,797
July 1, 2006 to maturity		15,820,903	2,614,154	18,435,057
	$	16,812,533	2,968,321	19,780,854

No allowance for uncollectible loans has been established as the loans are secured by applicable sources of pledged receivables.

♦ ***Behavioral Health Capital Fund***

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	29,495	12,674	42,169
July 1, 2006 to maturity		431,370	81,291	512,661
	$	460,865	93,965	554,830

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

4. *SECURITIES*

At June 30, 2005, securities for the Public Project Revolving Fund (PPRF) consisted of $12,018,362 of Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B and 2003B); $11,281 of Jemez Springs Bonds; and $732,020 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resources Bonds have interest rates ranging from 3% to 5.6%, with final maturity on May 1, 2018. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45%, with a final maturity on May 1, 2008. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19%, with final maturity on May 1, 2008. The securities are carried at cost, which approximates market value.

The following is a summary of future principal and interest to be collected based on contractual maturity of the securities after year-end:

		Principal	Interest	Total	Weighted Average Maturity
July 1, 2005 to June 30, 2006	$	1,056,286	593,939	1,650,225	2.74
July 1, 2006 to maturity		11,705,377	3,434,023	15,139,400	379.60
	$	12,761,663	4,027,962	16,789,625	382.34

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in The Authority's name. The Authority's investments in securities listed above are not collateralized.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer.

5. DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2005, consist of the following:

	Due From Other Funds	Due To Other Funds
Governmental Funds:		
Water and Wastewater Grant	$ 53,573	-
Water Project Fund	19,850	-
Emergency Drought Relief	2,867	-
Water Planning Grant	13,981	-
Economic Development	375,093	-
Metro Court Financing Fund	1,275,482	-
Total Governmental Funds	1,740,846	-
Enterprise Funds:		
Drinking Water Fund	46,284	-
Public Project Revolving Fund	238,986	-
GRIP Fund	30,692	-
Child Care Facility Revolving Fund	3,752	-
Public Project Revolving Fund	-	1,275,482
Operating Fund	-	785,078
Total Enterprise Funds	319,714	2,060,560
Total All Funds	$ 2,060,560	2,060,560

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Transfers between funds for the year ended June 30, 2005 are as follows:

		Transfers In	Transfers Out	Net Transfers
Governmental Funds:				
UNM Health Sciences	$	140,761	140,761	-
Metro Court Financing Fund		8,511,003	8,457,697	53,306
Metro Court DS Fund		3,424,358	1,160,483	2,263,875
State Building Program Cigarette Tax		3,071,505	3,737,966	(666,461)
Water and Waste Water Project Grant Fund		800	50,155	(49,355)
Water Project Fund		-	57,870	(57,870)
Emergency Drought Relief		57,870	-	57,870
Economic Development		488	-	488
Water Planning Grant		-	13,053	(13,053)
Total Governmental Funds		15,206,785	13,617,985	1,588,800
Enterprise Funds:				
Operating Fund		4,025,892	3,283,131	742,761
Drinking Water Revolving Loan Fund		7,313,470	127,367	7,186,103
Primary Care Revolving Fund		1,913	-	1,913
Public Project Revolving Fund		646,448,958	655,968,535	(9,519,577)
Total Enterprise Funds		657,790,233	659,379,033	(1,588,800)
Total All Funds	$	672,997,018	672,997,018	-

The following Enterprise Fund owed the following amounts to other state agencies at June 30, 2005:

The Drinking Water Revolving Loan Fund owed $579,416 to the Environment Department for technical set-asides.

6. *TRANSFERS TO OTHER STATE AGENCIES*

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2005:

The UNM Health Sciences transferred $43,734,149 in program fund requests to the entity.

The Workers' Compensation Financing Fund transferred $738,571 to rebate excess debt service funds.

The Metro Court Financing Fund transferred $1,728,888 to rebate excess debt service funds.

The State Building Purchase Fund transferred $4,666,706 in program fund requests to various entities.

The State Building Program Cigarette Tax transferred $94,150 for debt service payments.

The following enterprise fund made the following transfer to other state agencies during the year ended June 30, 2005:

The Drinking Water Revolving Loan Fund transferred $2,569,960 to the New Mexico Environment Department for technical assistance.

7. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	271,609	138,444	(150,614)	259,439
Accumulated depreciation		(225,586)	(37,978)	142,328	(121,236)
Total		46,023	100,466	(8,286)	138,203

7. *CAPITAL ASSETS - continued*

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Leasehold improvements	$	29,113	2,934	(29,113)	2,934
Accumulated depreciation		(29,113)	(419)	29,113	(419)
Total		-	2,515	-	2,515
Net total	$	46,023	102,981	8,286	140,718

Depreciation expense was $19,868 in the Operating Fund, $13,106 in the Public Project Revolving Fund, $7,253 in the Drinking Water Revolving Loan Fund, and $5,526 in the GRIP Administrative Fund for the year ended June 30, 2005.

Governmental Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	34,038	116,462	(5,371)	145,129
Accumulated depreciation		(11,028)	(19,477)	1,829	(28,676)
Total		23,010	96,985	(3,542)	116,453
Leasehold improvements		9,725	2,747	(9,725)	2,747
Accumulated depreciation		(9,725)	(392)	9,725	(392)
Total		-	2,355	-	2,355
Net total	$	23,010	99,340	3,542	118,808

7. *CAPITAL ASSETS - continued*

Depreciation expense was $7,973 in the Water and Wastewater Project Grant Fund, $7,930 in the Water Project Fund, $2,445 in the Emergency Drought Water Program Fund, $3,076 in the Water and Wastewater Planning Grant Fund and $1,624 in the Economic Development Fund for the year ended June 30, 2005.

8. *BONDS PAYABLE*

Bonds outstanding as of June 30, 2005, for the Authority's enterprise funds consist of the following:

Public Project Revolving Funds (PPRF)

PPRF Series 1997A. On December 1, 1997, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1997A, in the aggregate principal amount of $8,585,000. The Series 1997A Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1998 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1997A bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources as investments securities.

PPRF Series 1999A, 1999B, 1999C and 1999D. On January 1, 1999, the Authority issued its Public Project Revolving Fund Revenue Bonds, Series 1999A and 1999B (tax exempt) and Series 1999 and 1999D (taxable), in the aggregate principal amounts of $13,135,000, $3,025,000, $2,265,000 and $4,875,000, respectively. The Series 1999 Bonds were issued by the Authority to reimburse the Public Project Revolving Fund for loans made to the 1999 Government Units' accounts and to reimburse the Authority and finance the costs of issuance of the Series 1999 bonds and to purchase bonds from the Department of Energy, Minerals and Natural Resources and the New Mexico Interstate Stream Commission's investment securities. All of the bonds are secured from the Authority's portion of governmental gross receipts tax and income and principal from the loans and investments financed by the proceeds of the issue.

PPRF Series 2000A. On January 1, 2000, the Authority issued its Public Project Revolving Fund, Series 2000A Bonds, in the aggregate principal amount of $4,715,000 to finance a loan to Valencia County, New Mexico, to construct, purchase, furnish and equip an adult correctional facility for the County and to finance the cost of issuance of the Series 2000A Bonds.

8. BONDS PAYABLE - continued

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2000B and C. On September 1, 2000, the Authority issued $7,670,000 of Public Project Revolving Fund, Series 2000B and $28,850,000 Series 2000C Bonds. The Series 2000B and C bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various Governmental Units and to reimburse the Authority for and to finance the costs of issuance of the Series 2000B and C Bonds.

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

8. *BONDS PAYABLE - continued*

Bonds outstanding as of June 30, 2005, to be paid out of the Authority's debt service funds consist of the following:

Workers' Compensation Financing Fund. In July 1996, the Authority sold $4,310,000 of New Mexico Finance Authority Workers' Compensation Administration Building Revenue Bonds, Series 1996. The proceeds are for the acquisition of land and construction of an office building for the Workers' Compensation Administration. The bonds are solely payable from the revenues derived from the first $.40 of the quarterly workers' compensation assessment paid to the Authority.

Special Cigarette Tax Revenue Bonds. In July 1996, the Authority sold $6,000,000 of Special Cigarette Tax Revenue Bonds as part of the internal service fund cigarette tax program. The purpose of the bonds is for designing, constructing, equipping and furnishing an addition to the University of New Mexico Cancer Center. The bonds are secured by the Authority's cigarette tax revenue.

State Capitol Improvement Financing Fund. On May 11, 1999, the Authority issued $9,315,000 of New Mexico Finance Authority State Capitol Building Improvement Revenue Bonds, Taxable Series 1999. The bonds were issued for the purpose of repairing, remodeling, constructing and equipping the New Mexico State Library and for relocation associated renovations in the State Capitol.

Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. On August 1, 2001, the Authority issued $21,600,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001A (Tax Exempt), and $11,400,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2001B (Taxable). The Series 2001A Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2001A Bonds. The taxable Series 2001B Bonds were issued by the Authority for the purpose of financing the acquisition of land for, and the design, construction, furnishing and equipping of a parking facility adjacent to the new Bernalillo County Metropolitan Court and to finance the costs of issuance of the taxable Series 2001B Bonds.

8. *BONDS PAYABLE - continued*

Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

Equipment Loan Fund. The Authority has issued Certificates of Participation under the Equipment Loan Program. The proceeds are loaned to various governmental entities to purchase equipment. The loans have been assigned to trustees. The certificates are secured by various sources of local government revenues secured by intercept agreements that direct sources of revenues from the borrowers to the trustees. The certificates are not an obligation of the State of New Mexico or the Authority.

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 19965B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

8. *BONDS PAYABLE - continued*

State Office Building Financing Fund. The Laws of 2001, Chapters 166 and 199, authorized the Authority to issued revenue bonds for the General Services Department (GSD) of the State of New Mexico. The State Office Building Tax Revenue Bonds, Series 2002A, were issued on December 15, 2001, for purpose of financing the costs of acquiring, constructing, equipping and otherwise improving land and buildings for the GSD. The Series 2002A Bonds are payable from and secured only by amounts on deposit in the Authority's State Office Building Fund, which consists of money appropriated and transferred to the Fund from the net receipts attributable to the gross receipts tax of the State in the amount of $500,000 per month.

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

8. *BONDS PAYABLE - continued*

Bonds payable and related premium/discount balances consist of the following at June 30, 2005

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1997A	$	5,870,000	4.25 - 5.00	6/1/2017
PPRF 1999A, B, C and D		14,370,000	3.30 - 6.30	6/1/2018
PPRF 2000A		2,215,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		12,985,000	4.35 - 5.60	6/1/2030
PPRF 2002A		33,080,000	2.00 - 5.00	6/1/2026
PPRF 2003A		34,590,000	2.00 - 4.75	6/1/2032
PPRF 2003B		25,570,000	2.00 - 5.00	6/1/2021
PPRF 2004A		39,975,000	1.125 - 5.00	6/1/2031
PPRF 2004B		47,575,000	3.00 - 5.125	6/1/2033
PPRF 2004C		165,280,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D		56,510,000	3.05 - 5.00	Various
		438,020,000		
Bond premium and discount, net on enterprise funds		21,785,324		
Total	$	459,805,324		

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service funds:				
UNM Health Sciences	$	34,275,000	2.00 - 5.00	6/30/2019
UNM Health Sciences 2004B		10,000,000	2.10 - 5.50	6/30/2019
Workers' Compensation Financing Fund		3,135,000	5.00 - 5.60	3/1/2017
Metro Court		46,325,000	5.50 - 5.80	2025
State Capitol Improvement Financing Fund		6,990,000	7.00	3/15/2015
State Building Purchase Fund		30,170,000	4.00 - 5.00	6/1/2021
COP-Equipment Loan Fund Series 94A		-	4.55 - 6.45	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B		631,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A		110,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B		529,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond		600,000	3.95 - 5.25	6/1/2006
		132,765,000		

8. *BONDS PAYABLE - continued*

		Amount
Bond premium and discount, net on Debt Service Funds		2,163,465
Total	$	134,928,465

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2006	$	35,377,000	26,625,398	62,002,398
2007		33,027,000	25,382,569	58,409,569
2008		30,926,000	24,197,200	55,123,200
2009		32,699,000	22,935,717	55,634,717
2010		33,746,000	21,563,456	55,309,456
2011 - 2015		188,591,365	65,133,965	253,725,330
2016 - 2020		136,345,635	44,252,171	180,597,806
2021 - 2025		73,013,000	13,843,012	86,856,012
2026 - 2030		6,815,000	1,173,570	7,988,570
2031 - 2033		245,000	83,369	1,113,369
Total	$	570,785,000	245,190,427	815,975,427

The bonds payable activity for the year is as follows:

		Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
Enterprise Funds	$	251,961,838	227,945,000	41,886,838	438,020,000
Debt Service Funds		139,178,000	10,000,000	16,413,000	132,765,000
Total	$	391,139,838	237,945,000	58,299,838	570,785,000

The amount of bonds payable due within one year is $35,377,000.

8. *BONDS PAYABLE - continued*

The following bonds were issued by the Authority in an agency capacity and are not included in the Authority's financial statements (see Note 12):

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation, Series 2004A, Revenue Bonds. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation, Series 2004B, Refunding Revenue Bonds. The Series 2004B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation, Series 2004C, Refunding Revenue Bonds. The Series 2004C Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

9. *OPERATING LEASE COMMITMENT*

The Authority is committed under various lease agreements for office space and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2005 amounted to approximately $207,800.

9. *OPERATING LEASE COMMITMENT - continued*

Future minimum lease payments for these leases are as follows:

Years ending June 30:

2006	$	275,748
2007		275,748
2008		273,832
2009		270,000
2010		202,500
2011 and thereafter		-
	$	1,292,828

10. *RETIREMENT PLAN*

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $204,975, $153,937 and $99,057 for the years ended June 30, 2005, 2004 and 2003, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2005, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

10. *RETIREMENT PLAN - continued*

Statement of Fiduciary Net Assets

Assets:		
Cash	$	20,331
Self-directed accounts (cash and investments)		835,716
Participant loan receivable		33,914
Total assets	$	889,961
Net assets:		
Pension plan participants' benefits	$	889,961

Statement of Changes in Net Assets

Additions:		
Investment earnings	$	57,412
Employer contributions		204,975
Employee contributions		61,693
Total additions		324,080
Deductions:		
Distributions to participants		60,442
Investment expenses		7,168
Total deductions		67,610
Change in net assets		256,459
Net assets - beginning		633,492
Net assets - ending	$	889,961

10. *RETIREMENT PLAN - continued*

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code to its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2005 were $11,007.

11. *COMPENSATED ABSENCES*

During the year ended June 30, 2005, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
$	152,658	75,676	96,056	132,278

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

12. *AGENCY TRANSACTIONS*

Bond Issues

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

12. *AGENCY TRANSACTIONS - continued*

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 3.8%to 5.25%per annum is payable semi-annually on June 15 and December 15 through the year 2024.

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

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

The NMDOT is responsible for the Authority issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 2%to 5%per annum is payable semi-annually on June 15 and December 15 through the year 2014.

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

The Authority is responsible for its issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15 with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is fixed at 3.393%based on a swap agreement in place at June 30, 2004.

12. AGENCY TRANSACTIONS - continued

For the year ended June 30, 2005, the Authority recorded $341,731 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2005, the Authority had $662,948,633 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

Refunding

The Authority, on behalf of the NMDOT, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. $381,835,000 of the bonds outstanding was considered defeased as of June 30, 2004.

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

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

Terms. The swaps were entered into with J.P. Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072%, based on an amortizing notional schedule

12. *AGENCY TRANSACTIONS - continued*

State Transportation Revenue Bonds, Series 2006 - continued

with a combined $220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair value. As of June 30, 2005, the swaps had a negative fair value of $33,840,224 without the option. The options had a negative value of $11,128,234 in isolation of the swaps; thus the swaps including the options had a total negative value of $44,968,458. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial case reserves which will mitigate this risk by generating variable rate income.

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

Objective of the swaps. In April of 2004, the Authority entered into three swaps on behalf of NMDOT with three counterparties to synthetically refund outstanding Bonds which provided the Authority with present value savings of $11,524,206, or 3.02% of the Refunded Bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate

12. *AGENCY TRANSACTIONS - continued*

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

bonds at the time of issuance. In addition, through this structure the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swaps was to effectively change the Authority's interest rate on the bonds to a fixed rate.

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

Fair value. As of June 30, 2005, the Lehman swap and Goldman swap each had a negative fair value of $5,157,441, while the RBC swap had a negative value of $10,314,882. The total negative fair value on all the swaps was $20,629,764. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. After June 15, 2006, the Authority will be exposed to tax risk as reflected by the relationship between the rate paid on the outstanding bonds and 68%of one month LIBOR the rate received on the swap. Tax risk is a form of basis risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68%of LIBOR received on the swap. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events.

13. *SUBSEQUENT EVENTS*

After June 30, 2005, the Authority issued the following PPRF Direct Loans, Planning Fund Grants, Water Project Fund/Water Trust Board Grants and Water Wastewater Grants:

	Closing Date		Amount
PPRF Cash Loans:			
City of Bloomfield	7/1/2005	$	216,218
Farmington Municipal Schools	7/1/2005		1,000,000
Lordsburg Municipal Schools	7/15/2005		1,500,000
New Mexico Junior College	7/15/2005		4,589,369
City of Carlsbad	7/19/2005		1,000,000
Dexter Consolidated Schools	8/19/2005		500,000
Bent Fire Department (Interim)	9/2/2005		78,804
Otero County, La Luz Fire Department (Interim)	9/2/2005		187,778
Town of Estancia	9/9/2005		125,339
Town of Elida	9/16/2005		22,500
Vaughn Fire Department (Interim)	9/16/2005		138,889
Truth or Consequences Municipal Schools	9/23/2005		1,750,000
Tierra y Montes Soil and Water	9/23/2005		207,590
Torrance County District 5 Fire Department	9/23/2005		544,537
Tularosa Village	9/23/2005		311,112
Village of Dora (Interim)	9/23/2005		126,550
Sierra County Lakeshore Fire Department (Interim)	9/30/2005		86,000
		$	12,384,686
Planning Grant:			
Quemado Lake Water Association	9/23/2005	$	22,500
		$	22,500
Water Project Fund/Water Trust Board:			
Ute Creek Soil and Water	8/26/2005	$	500,000
		$	500,000
Water Wastewater Grants:			
Villanueva MDWCA	7/1/2005	$	90,000
Ramah Navaho	7/1/2005		345,600
La Bajada Comm Ditch	7/15/2005		87,300
Torreon Chapter Navajo	7/22/2005		400,000
Picuris Pueblo	7/29/2005		108,000
Pecan Park MDWCA	8/26/2005		400,000
Fambrough MDWCA	8/26/2005		396,945
Town of Mesilla	8/26/2005		400,000
		$	2,227,845

13. *SUBSEQUENT EVENTS - continued*

	Closing Date		Amount
PPRF Revenue Bonds Series 2005A	8/1/2005	$	19,015,000
		$	19,015,000
PPRF Revenue Bonds Series 2005B	8/1/2005	$	13,500,000
		$	13,500,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005C	4/5/2005	$	50,395,000
		$	50,395,000
Taxable Subordinate Lien PPRF Refunding Revenue Bonds Series 2005D	4/5/2005	$	8,660,000
		$	8,660,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005E	8/30/2005	$	23,630,000
		$	23,630,000

Energy Efficiency and Renewable Energy Bonding Fund. House Bill 32 created the Energy Efficiency and Renewable Energy Bonding Fund at the Authority. The Authority would issue bonds based on projected savings and from a $200,000 per month allocation from the General Fund to the Authority. The proceeds from the bonds would be used to pay for energy efficient improvements at state-owned buildings or public schools. The Authority is authorized to issue up to $20 million in bonds for this purpose.

14. *RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND*

The Behavioral Health Capital Fund was created by legislation in 2004 by Chapter 6, Article 26-4. The fund is a revolving fund consisting of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund.

The purpose of the fund is to make loans to eligible entities to acquire, construct, renovate or improve capital projects. Eligible entities are defined as nonprofit behavioral health facilities with assets totaling less than $10,000,000, are 501(c)(3) nonprofit corporations for federal income tax purposes and serve primarily sick and indigent patients.

14. *RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND - continued*

The Authority administers the fund in conjunction with the New Mexico Department of Health pursuant to the provisions of the Behavioral Health Capital Funding Act (6-26-1 NMSA 1978). The Authority is responsible for all financial duties of the program, including administering the fund. The Department of Health is responsible for defining sick and medically indigent persons for the purpose of determining eligible facilities, establishing priorities for loans and determining the appropriateness of a capital project.

In prior year audited financial statements, the Behavioral Health Capital Fund was reported as a governmental activity. Based on the purpose and administration of the fund, this fund has been reclassified to an enterprise fund in the current year financial statements.

15. *DEFICIT FUND / NET ASSETS*

There is a deficit fund balance in the Economic Development Fund of $381,499. The Child Care Revolving Loan Fund has a deficit of $8,279. The operating fund will cover the deficits in these funds.

16. *PRIOR PERIOD RESTATEMENTS*

In the prior year, the bonds payable and loans receivable in the Public Project Revolving Funds were overstated by $13,435,000 and $11,421,000, respectively. The overstatement was a result of the failure to properly record the transfer of debt and associated loans to the City of Santa Fe. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $2,014,000.

Additionally, two bonds payable in the Public Project Revolving Funds were overstated by $485,000 and $714,877, respectively, due to unrecorded principal payments. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $1,199,877.

In prior years, loans receivable in the Equipment Loan Fund were not recorded on the books of the Authority. The addition of the loans receivable resulted in an increase in fund balance as of June 30, 2004, of $1,015,000.

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2005

		Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
ASSETS:								
Cash and cash equivalents	$	-	287,803	-	360,589	1,415,962	635,892	2,700,246
Receivables:								
Tax revenue receivable		-	-	303,373	83,065	-	4,877	391,315
Interest receivable		-	-	18,054	-	-	-	18,054
Loans receivable		-	-	1,015,000	-	-	-	1,015,000
		-	287,803	1,336,427	443,654	1,415,962	640,769	4,124,615
Restricted assets:								
Cash and cash equivalents held for others by trustee:								
Debt service		-	-	30,623	-	-	-	30,623
Bond reserve		-	-	-	-	-	197,963	197,963
Expense fund		-	-	-	-	-	-	-
Program - grant proceeds for other state agencies		-	-	-	-	-	-	-
Program - bond proceeds		-	-	-	-	-	361,900	361,900
		-	-	30,623	-	-	559,863	590,486
	$	-	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

AS OF JUNE 30, 2005

		Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
LIABILITIES AND FUND BALANCES:								
LIABILITIES:								
Accounts payable and accrued liabilities	$	6,406	119	-	80,263	551	-	87,339
Debt service payable		-		-	-	-	-	-
Notes payable		-	-	-	-	-	-	-
Funds held for others		-	-	-	-	-	-	-
Due to other state agencies		-	-	-	-	-	-	-
Due to other funds		375,093	2,867	-	-	13,981	-	391,941
TOTAL LIABILITIES		381,499	2,986	-	80,263	14,532	-	479,280
FUND BALANCES:								
Fund balances (deficit) -								-
reserved for:								-
Debt service		-	-	1,367,050	363,391	-	1,200,632	2,931,073
Special revenue funds		(381,499)	284,817	-	-	1,401,430	-	1,304,748
TOTAL FUND BALANCES		(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821
TOTAL LIABILITIES AND FUND BALANCES	$	-	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

YEAR ENDED JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
REVENUE:							
Tax revenue	$ -	-	713,056	-	-	-	713,056
Grant revenue	-	-	-	-	-	-	-
Interest on loans	-	-	-	-	-	-	-
Interest on investments	-	9,621	-	6,508	33,670	39,495	89,294
Other revenue	-	-	10,032	-	-	-	10,032
TOTAL REVENUE	-	9,621	723,088	6,508	33,670	39,495	812,382
EXPENDITURES:							
Current:							
Administrative fee	-	-	-	18,350	-	-	18,350
Professional services	190,362	3,453	-	-	41,589	1,631	237,035
Salaries and fringe benefits	48,937	(1,646)	-	-	17,623	-	64,914
In-state travel	1,554	(327)			846		2,073
Out-of-state travel	4,211		-	-	66	-	4,277
Maintenance and repairs	1,078	117	-	-	795	-	1,990
Operating costs	15,707	3,840	-	-	8,567	-	28,114
Grant expense	-	213,300	-	-	348,432	-	561,732
Capital outlay	23,888	20,849	-	-	22,281	-	67,018
Debt service:							
Principal payments	-	-	618,296	465,000	-	175,000	1,258,296
Interest expense	-	-	84,187	513,800	-	174,628	772,615
Bond issuance costs	-	-	-	-	-	-	-
TOTAL EXPENDITURES	285,737	239,586	702,483	997,150	440,199	351,259	3,016,414
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(285,737)	(229,965)	20,605	(990,642)	(406,529)	(311,764)	(2,204,032)

YEAR ENDED JUNE 30, 2005

		Economic Development	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
OTHER FINANCING SOURCES (USES):								
Bond proceeds	$	-	-	-	-	-	-	-
State General Fund appropriations		-	-	85,965	995,913	-	1,088,503	2,170,381
Transfers (to) from other funds		488	57,870	-	-	(13,053)	-	45,305
Transfers to other state agencies		-	-	-	-	-	(738,571)	(738,571)
TOTAL OTHER FINANCING SOURCES (USES)		488	57,870	85,965	995,913	(13,053)	349,932	1,477,115
NET CHANGE IN FUND BALANCE		(285,249)	(172,095)	106,570	5,271	(419,582)	38,168	(726,917)
FUND BALANCE, June 30, 2004		(96,250)	456,912	245,480	358,120	1,821,012	1,162,464	3,947,738
PRIOR PERIOD ADJUSTMENT		-	-	1,015,000	-	-	-	1,015,000
FUND BALANCES, June 30, 2004, adjusted		(96,250)	456,912	1,260,480	358,120	1,821,012	1,162,464	4,962,738
FUND BALANCE, June 30, 2005	$	(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821

SUPPLEMENTAL SCHEDULES

Schedule 1 - Supplemental Schedule of Pledged Collateral

YEAR ENDED JUNE 30, 2005

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	HSBC New York (New York)	Total
Bank accounts:				
Operating account - checking	$ 84,745	-	-	84,745
Wire transfer account	-	-	-	-
Repurchase agreements	-	3,889,896	3,279,691	7,169,587
Total amount of deposits	84,745	3,889,896	3,279,691	7,254,332
FDIC coverage	84,745	-	-	84,745
Total uninsured public funds	-	3,889,896	3,279,691	7,169,587
Collateral requirement @102%	-	3,967,694	3,345,285	7,312,979
Pledges and securities:				
FNMA, matures January 1, 2032				
Held at Wells Fargo, San Francisco, CA				
CUSIP 31385H2K9				
Par $106,894				
Rated by Moody's "AAA"	109,728	-	-	109,728
UST Note, matures November 15, 2005				
Held at Wells Fargo, Charlotte, NC				
CUSIP 912827V82				
Par $4,400,000	-	4,441,250	-	4,441,250
UST Note, matures August 15, 2007				
Held at JP Morgan Chase, New York, NY				
CUSIP 9128273E0				
Par $3,180,000	-	-	3,412,273	3,412,273
Over/(under) secured	$ 109,728	473,556	66,988	650,272

Pledged collateral amounts are in compliance with the collateral requirement of 102%

YEAR ENDED JUNE 30, 2005

		Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
DEPARTMENT OF TRANSPORTATION					
ASSETS:					
Cash and investments	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL ASSETS	$	-	2,157,505,359	1,494,556,726	662,948,633
LIABILITIES:					
Deposits held in trust for others	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL LIABILITIES	$	-	2,157,505,359	1,494,556,726	662,948,633
		-	-	-	-

SINGLE AUDIT

YEAR ENDED JUNE 30, 2005

Federal Agency/ Pass-Through Agency	Federal CFDA Number		Federal Participating Expenditures
Environmental Protection Agency:			
Capitalization Grants for Drinking Water			
State Revolving Funds	66.648	$	2,980,318
Total EPA		$	2,980,318
Funds passed through to sub-receipients		$	2,569,690

Loans funded		Original Balance	Balance at June 30, 2005
Revolving loans			
Loans funded in previous years	$	21,162,361	16,812,533
Total loans funded	$	21,162,361	16,812,533

The revolving loans are funded through a mix of 80%federal and 20%state monies.
The technical set-aside loans are funded with 100%federal monies.

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Authority.

BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Authority's general purpose financial statements.

Reconciliation to Financial Statements (page 25)

Transfers to other state agencies	$	2,569,960
Total non-interest expense		410,358
Total EPA expenditures	$	2,980,318

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

MEYNERS + COMPANY, LLC
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An Independent Member of the BDO Seidman Alliance

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2005. We have also audited the financial statements of each of the Authority's nonmajor governmental funds presented as supplementary information in the combining fund financial statements as of and for the year ended June 30, 2005, and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompany schedule of findings and questioned costs as items 05-01, 05-02 and 05-12. We noted other matters involving the internal control over financial reporting that are required to be reported per section 12-6-5 NMSA 1978, and are detailed in findings 05-03 and 05-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance and Other Matters

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

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

Meyners + Company, LLC

December 9, 2005

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

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BDO Seidman Alliance

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the financial statements of the New Mexico Finance Authority (Authority), with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the Authority, the State of New Mexico Office of the State Auditor, and the cognizant audit agency and other federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

December 9, 2005

YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Finance Authority (Authority).

2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Authority.

3. Three reportable conditions were disclosed during the audit of the financial statements and are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

4. There were no reportable conditions in the internal control over major programs disclosed by the Authority.

5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.

6. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

7. The program tested as a major program is:
   Capitalization Grants for Drinking Water State Revolving Fund
   CFDA Number 66.648

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

05-01 OBTAINING SIGNED AUDIT CONTRACT PRIOR TO COMMENCEMENT OF WORK (Reportable Condition)

Reportable Condition: The Authority did not have sufficient procedures to ensure that all necessary compliance requirements were met prior to allowing the audit to commence. The Office of the State Auditor noted that the Authority's auditors began work on the fiscal year 2005 audit without a State Auditor signed contract in place.

Criteria: Section 12-6-14, NMSA 1978, states "each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the state auditor. . ."

Cause: A contract was approved by the Authority's Board, signed by the Authority and the audit firm and submitted to the Office of the State Auditor. The State Auditor contacted the Authority and required that the contract be revised to comply with its requirements for including special provisions. Due to a change in personnel at the Authority and at the audit firm, the contract was not resubmitted to the Office of the State Auditor prior to the commencement of the audit.

Effect: The Authority is out of compliance with State Statute, the Procurement Code and State Auditor Rules. It is possible that the audit would not have been accepted by the Office of the State Auditor. However, the Office of the State Auditor has now signed the revised contract.

Auditors' Recommendation: The Authority should ensure that the audit contract is signed by the State Auditor before the commencement of the audit.

Agency Response: The Authority agrees with the finding as reported above. In the future, the CFO of the Authority will assume direct responsibility for obtaining all required signatures on the contract and delivering the contract to the Office of the State Auditor.

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES (Reportable Condition)

Reportable Condition: The Authority did not have formal procedures in place that require additional technical review of unusual or infrequent journal entries. Since the Authority keeps its books on a cash basis, many of these journal entries relate to accruals and are only recorded at year-end.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES - continued

Criteria: Unusual or infrequent journal entries inherently have a higher risk that the associated transaction could be posted incorrectly. Additionally, the Authority's transactions are more complex than that of many other organizations.

Cause: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2A, the Authority had not recognized the benefits of obtaining additional review of unusual or infrequent journal entries.

Effect: Significant adjusting journal entries were identified during the audit preparation process by the Authority and by the auditors, including prior period adjustments, adjustments to record fund activity for a fund that had been converted from a trust fund, new bond issue activities, etc.

Auditors' Recommendation: The Authority should establish procedures to require approval of significant or unusual journal entries, including obtaining appropriate advice from its outside advisors and independent auditors, as transactions occur throughout the year.

Agency Response: The Authority agrees with the finding as reported above. Additional reconciliation procedures were put in place during FY2005, which enabled Authority staff to identify necessary adjustments. Such procedures will be strengthened prior to the next audit. Complex transactions will be discussed with both our external and internal auditors to ensure proper accounting treatment.

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY

Reportable Condition: The Authority disposed of old and unused fixed assets during the current fiscal year. The Authority did not follow New Mexico State Auditor rules regarding the submission of a list of fixed asset deletions as required by State Auditor Rule.

Criteria: Per SAO 2.2.2.10 W, the Authority is subject to the State Auditor rules and should have notified the State Office prior to the disposal of fixed assets.

Cause: The Authority was not aware of the requirement to notify the State Auditor prior to the disposition of fixed assets.

Effect: The Authority is in violation of State Auditor rules.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY - continued

Recommendation: The Authority should adopt fixed asset disposition procedures that are consistent with State Auditor rules and other state laws and regulations.

Agency Response: The Authority disposed of most property by donating it to schools. No Authority property has ever been purchased through the State procurement system and belongs solely to the Authority. However, in the future all asset dispositions will be first cleared with the State Auditor's Office.

05-04 PERFORMING A PHYSICAL INVENTORY OF FIXED ASSETS

Condition: The Authority does not tag its fixed assets to identify its property.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 14, Section 3.4A, the tagging of fixed assets facilitates the taking of the annual inventory and identifies property belonging to the Authority.

Cause: Staff shortages have prevented the Authority from implementing this internal control procedure.

Effect: Fixed assets could be stolen, misplaced or disposed of without Authority knowledge.

Recommendation: The Authority should tag all of its fixed assets.

Agency Response: A new tagging system was implemented during FY2006. The new tagging system is known as the Dymo Letra Tag.

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY

Condition: The Authority has numerous transactions between funds and certain other state agencies. Some of this activity is not segregated from other receivables, payables and transfers within the Authority's general ledger.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY - continued

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 9, Section 9.1, segregation of all interfund and interagency activity makes it easier to reconcile this activity with the corresponding agency or fund. Interfund and interagency transactions must be presented separately in the Authority's audited financial statements so that such activity can be eliminated in the state wide financial statements.

Cause: The Authority has significant transactions with other agencies and between funds as part of its normal operating process. Segregation of these transactions has not been identified as a necessity.

Effect: Preparation of the statewide financial statements is more difficult when these accounts are not segregated.

Recommendation: All interfund and interagency activity should be separated in the general ledger with unique general ledger account codes.

Agency Response: The Authority will create unique general ledger codes in order to ensure that interfund and interagency activity can be easily identified.

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS

Condition: Fees and costs are collected from entities to which the Authority has loaned money. In certain cases, these fees and costs have been recorded as liabilities held for offering costs. While in some cases these liabilities may represent deferred revenue for amounts collected in advance, in other cases these liabilities could actually be restricted revenue.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 3B, Section 3, improper treatment of these fees and costs could result in an understatement of revenue and fund balances.

Cause: The Authority's current finance personnel have not yet had the opportunity to review the historical treatment of transactions to evaluate whether the historical treatment is consistent with governmental accounting standards.

Effect: Immaterial liabilities are included in the Authority's financial statements that are not supported by adequate documentation, resulting in an overstatement of liabilities.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS - continued

Recommendation: The treatment of the liabilities should be researched and a determination should be made as to whether these accounts are recorded properly in accordance with governmental accounting standards.

Agency Response: Accounting staff will complete a review and reconciliation during FY 2006 to determine the correct disposition of any immaterial liabilities that exist and determine the proper accounting treatment of such liabilities.

05-07 CAPITALIZING BOND OFFERING COSTS

Condition: In reviewing expenditure activity, it was noted that certain bond-offering costs were recorded in professional fee and other expense accounts.

Criteria: The Government Accounting Standards Board (GASB) requires that bond offering costs for enterprise funds be capitalized and amortized over the life of the bond. For governmental fund types, theses costs should also be segregated in the general ledger for proper presentation in the Authority's full accrual-based financial statements.

Cause: On occasion, invoices for bond offering costs are received substantially after the bond has closed. As a result, these invoices are inadvertently charged to incorrect accounts.

Effect: Expenses could be overstated by the amount of unamortized bond offering costs.

Recommendation: All bond offering costs should be identified and charged to the appropriate general ledger account.

Agency Response: In prior periods, it was felt that one administrative account held at the trustee could be established for the purpose of paying bond offering costs. However, as the level of activity has increased at the Authority, separate accounts for each bond offering will be established for the purpose of tracking bond offering costs.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-08 RECORDING UNEMPLOYMENT INSURANCE EXPENSE

Condition: The Authority is self-insured for unemployment insurance. The Authority estimates and accrues the estimated unemployment insurance. The expense is charged to the various funds. The Authority has not experienced significant unemployment insurance claims. In the current fiscal year, there were no payments for unemployment claims. However, an expense was recorded for the estimated liability.

Criteria: Per DFA's *Model Accounting Practices,* Volume I, Chapter 6, Section 3, unemployment insurance expense is charged to programs when there is no unemployment insurance incurred.

Cause: The Authority has not reviewed their procedures for recording accruals due to staff shortage during the current fiscal year.

Effect: Accrued liabilities and expenses could be overstated.

Recommendation: A reasonable accrual for unemployment insurance is appropriate when self-insured. However, the reasonableness of the accrual should be reviewed and adjusted on an annual basis.

Agency Response: Accounting staff will review the accrual made for the purpose of recording unemployment insurance expense. It is probable that the accrual will be eliminated in favor of recording only actual expenses incurred.

05-09 CLOSING INACTIVE TRUST ACCOUNTS

Condition: The Authority has numerous trust accounts. Many of these trust accounts have no balances. Some of these accounts are related to loans that have been paid off.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 4, Section 4, proper internal control procedures would require that all inactive trust accounts be closed promptly.

Cause: The Authority does not actively monitor the status of trust accounts held at the trustee, Bank of Albuquerque, and relies on the trustee to identify accounts that should be closed.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-09 CLOSING INACTIVE TRUST ACCOUNTS - continued

Effect: Trust accounts that remain open after the related loan activity has ceased create a risk that individuals may access the account for fraudulent purposes or that activity is being recorded in an improper account

Recommendation: The Authority should review the status of trust accounts on a regular basis and take a more active role in initiating account closures.

Agency Response: The Authority will take a more active role in reviewing inactive trust accounts and discussing their closure with the trustee. However, it is important to note that these accounts may remain open during at least one fiscal year after activity has ceased in the account. These trustee accounts belong to the borrower, not the Authority.

05-10 CLEARING RECONCILING ITEMS

Condition: The Authority has immaterial reconciling items in its wire transfers account that date back to the prior fiscal year. The origin of the items is well documented by Authority staff, but the journal entry to record the items had not been completed as part of year-end closing.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2, reconciling items should be recorded timely to ensure accurate account balances.

Cause: The shortage of staff during the current fiscal year has resulted in certain immaterial adjusting entries not being recorded on a timely basis.

Effect: The bank account is overstated by the amount of the reconciling items.

Recommendation: Adjusting entries to the wire transfers account should be reviewed as part of the monthly bank reconciliation process and made on a timely basis.

Agency Response: Reconciling items will be more closely reviewed on a monthly basis to ensure that all items are cleared.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-11 ANNUAL AFFIRMATION OF CODE OF CONDUCT

Condition: The Authority had all employees sign a Code of Conduct policy in September/October 2004 due to a revision of the policy.

Criteria: Sound internal control procedures dictate that code of conduct and conflict of interest policies should be reviewed on a regular basis. Recent events in both corporate and government settings reflect the need to enhance awareness of and consent to code of conduct and conflict of interest policies.

Cause: Current events have increased the awareness of the importance of an annual review of these policies by all employees.

Effect: Failure to annually review and affirm code of conduct and conflict of interest policies could lead to lapses in employee compliance with such policies.

Recommendation: The Authority should require all employees to review and sign a code of conduct and a conflict of interest policy annually.

Agency Response: In discussions with the Human Resources Director, the affirmation of the Code of Conduct will be conducted on an annual basis. The policy will be reviewed with employees and they will sign off on a statement acknowledging review of the policy.

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS (Reportable Condition)

Condition: New Mexico Finance Authority did not file their fiscal year 05 financial statements on time to the State Auditor's office.

Criteria: Per section 2.2.2.9A(1)(f) of the State Auditor rulebook, state agency reports are due no later than December 15.

Cause: Due to turnover in personnel, the auditors did not have the report completed in time for management to review the financial statements.

Effect: Not in compliance with the State Auditor rulebook section 2.2.2.9A(1)(f).

B. FINDINGS - FINANCIAL STATEMENT AUDIT - *continued*

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS - *continued*

Recommendation: The audit will begin earlier for FY06 to ensure meeting the State Auditor deadline.

Agency Response: Authority accounting staff will ensure that the outside auditor begins the audit earlier in FY 2006, provides accounting staff with a list of necessary documents and schedules prior to commencing the audit (at an earlier date than in FY 2005), and provides audit personnel with a sufficient level of expertise to conduct audit fieldwork.

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

None

04-01 Drinking Water State Revolving Fund - Cash Draw and State Match Requirements –

Current Status - Cash Draw: The Authority is reimbursing participant loans with funds already drawn down until these funds have been exhausted.

Current Status - State Match Requirements: Resolved

An exit conference was held with the Authority on December 12, 2005. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

William C. Sisneros, Executive Director
Jerome Trojan, Chief Operations Officer
Joe Gosline, Chief Financial Officer
James Jimenez, Audit Committee Chairman
Grace Romero, Finance Manager

MEYNERS +COMPANY, LLC

Reta Jones, Principal
Georgie Ortiz, Senior Audit Manager

PREPARATION OF FINANCIAL STATEMENTS

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

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APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are extracts, supplementing the information in the body of the Official Statement, of certain defined terms in and provisions of the Indenture. These extracts do not purport to be complete. Please refer to the Indenture itself for a full and complete statement of such provisions. During the offering period of the 2006D Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the 2006D Bonds, copies of the Indenture may be obtained from the Trustee. See "ADDITIONAL INFORMATION."

CERTAIN DEFINITIONS

"Account" or "Accounts" means one or more of the special trust accounts created and established pursuant to the Indenture.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and as the same may hereafter be amended and supplemented.

"Additional Bonds" means any Bonds of the NMFA, authorized and issued under the Indenture, in compliance with the Indenture, except for the Series l995A-B Bonds.

"Additional Pledged Loans" means any additional loans or securities which (i) were made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund and (ii) the payments of principal and interest on which have been specifically pledged by the NMFA to the payment of the Bonds and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the principal and interest payable on all Bonds Outstanding or to be Outstanding or any portion thereof.

"Agreement" or "Agreements" means, as the case may be, one or more Loan Agreements, Grant Agreements or Securities executed and delivered by Governmental Units in consideration for the financing of all or a portion of a Project by the NMFA under the General Indenture.

"Agreement Pledged Revenues" means the pledged revenues designated by a Governmental Unit for payments to be made pursuant to the respective Loan Agreement, Security Documents or Securities.

"Agreement Reserve Fund" means the Agreement Reserve Fund established by the Indenture and each Agreement Reserve Account, if any, created by an Agreement.

"Agreement Reserve Requirement" for each Agreement establishing an Agreement Reserve Account, means the amount, if any, required by such Agreement to be allocated to an Agreement Reserve Account (relating to such Agreement) within the Agreement Reserve Fund.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax Exempt Bonds.

"Assumed Repayments of Loans and Additional Pledged Loans" means, for any given Bond Fund Year, the sum (expressed as a dollar amount) of the principal and interest payments scheduled to be due and payable with respect to all Loans and Additional Pledged Loans during such Bond Fund Year multiplied by, in each case, the applicable percentage pertaining to each such Loan and Additional Pledged Loan:

Category of Loans and Additional Pledged Loans	Applicable Percentages
CATEGORY I	100%
CATEGORY II	80%
CATEGORY III	50%
CATEGORY IV	0%

"Authorized Denominations" means, with respect to the 2006D Bonds, $5,000 or any integral multiple thereof and with respect to the Loans that are subject to the Sixty-Seventh Supplemental Indenture, $5,000 and any other dollar amount in excess of $5,000.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary or Treasurer, and when used with reference to any act or document also means any other person authorized by resolution of the NMFA to perform such act or execute such documents; (ii) in the case of a Governmental Unit, means the person or persons authorized by resolution or ordinance of the Governmental Unit to perform any act or execute any document; and (iii) in the case of the Trustee or the Paying Agent any person authorized to perform any act or sign any document by or pursuant to the bylaws or any resolution of the governing body of the Trustee or the Paying Agent, respectively.

"Beneficial Owner" means, while DTC or its nominee is the registered owner of the Series 2006D Bonds, any person entitled to receive payment of principal of, premium, if any, and interest on 2006D Bonds and otherwise exercise ownership rights with respect to Series 2006D Bonds.

"Bond Counsel" means nationally recognized bond counsel experienced in matters of municipal law, satisfactory to the Trustee and listed in the list of municipal bond attorneys, as published semiannually by *The Bond Buyer*, or any successor publication.

"Bond Documents" means collectively, the Loan Agreements, the Grant Agreements, the Securities, the Security Documents, and the Indenture.

"Bond Fund" means the fund by that name established by the Indenture to be held by the Trustee and used to pay amounts due on the Bonds.

"Bond Fund Year" means a twelve-month period commencing June 2 of each year and ending on the next succeeding June 1.

"Bond Registrar" or "Registrar" means the Trustee or any other registrar appointed under the Indenture.

"Bonds" means all Bonds issued and secured under the Indenture.

"Business Day" means any day, other than a day on which banks located in New York, New York or the cities in which the Principal Offices of the Trustee or the Paying Agent are located are required or authorized by law or executive order to close, or on which the New York Stock Exchange is closed.

"Cash Flow Statement" means an NMFA certificate (a) setting forth, for the then current and each future Bond Fund Year during which Bonds will be Outstanding, and taking into account (i) any Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year upon or in connection with the filing of such certificate, (ii) the terms of any Loans and Grants or Additional Pledged Loans expected to be made or purchased by the NMFA or Loans or Additional Pledged Loans released from the Trust Estate upon or in connection with the filing of such certificate, and (iii) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such certificate:

(A) the amount of NMFA Portion of the Governmental Gross Receipts Tax to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

(B) the Assumed Repayments of Loans and Additional Pledged Loans to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds; and

(C) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds reasonably expected to be Outstanding;

and (b) showing that in each such Bond Fund Year, the aggregate of the amount set forth in clause (A) of the definition divided by 1.35, plus the aggregate amount set forth in clause (B) of the definition, exceeds one hundred percent (100%) of the aggregate of the amounts set forth in clause (C) of the definition.

For purposes of the foregoing definition the following assumptions will apply:

(i) NMFA Portion of the Governmental Gross Receipts Tax in any future Bond Fund Year will be assumed to be the greatest amount received by the NMFA in any consecutive 12-month period in the 24 months next preceding the delivery of the Cash Flow Statement;

(ii) For any Bonds issued in the year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans associated with such Bonds will be included in calculating the ratio described above; and

(iii) Loans and Additional Pledged Loans will be assumed to remain in their then-current category designations throughout the period projected in the Cash Flow Statement.

"Category I Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in at least the third highest full rating category or higher by the Rating Agencies.

"Category II Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans, the underlying obligations of which, at the time in question, are designated or rated in the fourth highest full rating category by the Rating Agencies.

"Category III Loans and Additional Pledged Loans" means Loan Agreements, Securities and Additional Pledged Loans the underlying obligations of which, at the time in question, are not designated or rated or are designated or rated below the fourth highest full rating category by the Rating Agencies, but excluding Category IV Loans and Additional Pledged Loans.

"Category IV Loans and Additional Pledged Loans" means all Nonperforming Loans and Additional Pledged Loans and Loans for which moneys have been drawn on the related Agreement Reserve Account to make payments due under the related Agreement and such moneys have not been fully replenished in accordance with the related Agreement or loans or Additional Pledged Loans otherwise designated as Category IV by the NMFA or the Rating Agencies.

"Cede" means Cede & Co. and any substitute nominee of DTC who becomes the Registered Owner of any 2006D Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and the applicable regulations thereunder.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the NMFA and the Trustee dated the date of issuance and delivery of the Series 2006D Bonds, as originally executed as it may be amended from time to time in accordance with the terms thereof.

"Covenant Default" has the meaning, if any, given in any Loan Agreement, Securities or Additional Pledges Loan.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York.

"Expense Fund" means the fund by that name established by the Indenture to be held by the Trustee.

"Funds and Accounts" means collectively, the Debt Service Account and the Accounts created in the Indenture, the Agreement Reserve Fund and the Accounts created therein, the Program Fund and the Accounts created therein, the Expense Fund, the Rebate Fund and the Accounts created therein, the Revenue Fund, and the Bond Fund.

"Governmental Obligations" means direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Governmental Units" means any "qualified entity" under the Act which has executed and delivered to the NMFA a Loan Agreement, Grant Agreement or Securities for the purpose of financing all or a portion of a Project.

"Grant Agreements" means a grant or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and does not require payments by the Governmental Unit to be made thereunder.

"Grants" means collectively, the Grants made pursuant to the Grant Agreements.

"Indenture" means the General Indenture of Trust and Pledge and all Supplemental Indentures thereto as the same may be amended and supplemented.

"Interest Component" means the portion of each Loan Payment representing interest on the related Loan.

"Interest Payment Date" means, with respect to the Series 2006D Bonds, each June 1 and December 1, commencing December 1, 2006.

"Loan Agreement" means a loan or other similar financing agreement and any amendment thereto, which is entered into by and between the NMFA and a Governmental Unit and which provides for the financing of a Project with proceeds of Bonds and requires the Governmental Unit to repay the amounts advanced.

"Loan Payment" means the payments made by each Governmental Unit pursuant to the provisions of a Loan Agreement or Securities and which are to be used in accordance with the Indenture.

"Loan Payment Date" means the date specified in each Loan Agreement or Securities as the due date for Loan Payments.

"Loans" means collectively, the Loans made pursuant to the Loan Agreements and the Securities; excluding, however, all Additional Pledged Loans. Loans and Additional Pledged Loans may be evidenced by the same document containing two or more separate obligations.

"NMFA Portion of the Governmental Gross Receipts Tax" means an amount equal to seventy-five percent (75%) of the net receipts attributable to the governmental gross receipts tax levied pursuant to Section 7-9-4.3, NMSA 1978, as amended, and distributed to the NMFA pursuant to Section 7-1-6.38, NMSA 1978, as amended.

"Nonperforming Loans and Additional Pledged Loans" means Loan Agreements and Securities and Additional Pledged Loans under which there has occurred and is continuing an event of default (other than a Covenant Default) or under which a delinquency exists in payments of principal or interest thereunder.

"Original Issue Date" means, with respect to the Series 2006D Bonds, the date of delivery thereof.

"Outstanding" or "Bonds outstanding" mean all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) any Bond (or any portion thereof) (i) for the payment or redemption of which there will be held in trust under the Indenture and set aside for such payment or redemption, moneys and/or Governmental Obligations (not callable at the option of the issuer thereof) maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Governmental Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or redemption price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which will be given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

(c) Bonds deemed paid pursuant to the provisions of the Indenture; and

(d) Bonds in lieu of which others have been authenticated pursuant to the Indenture.

"Participants" means underwriters, securities brokers and dealers, banks and trust companies, clearing corporations and other persons from time to time for which DTC or any successor Securities Depository holds Series 2006D Bonds as Securities Depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Paying Agent," when used with respect to the Series 2006D Bonds, means the person or persons authorized by the NMFA to pay the principal of, premium, if any, and interest on, the Series 2006D Bond on behalf of the NMFA, and initially is the Trustee.

"Permitted Investments" (i) with respect to the investment of the respective Accounts of the Program Fund, the Agreement Reserve Fund and the Debt Service Account has the meaning set forth in each Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Expense Fund and the Rebate Fund or any other fund created under the Indenture, the following to the extent permitted by New Mexico law:

(a) Governmental Obligations;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);

(i) *Farmers Home Administration* (FmHA) Certificates of Ownership;

(ii) *Federal Housing Administration* (FHA) Debentures;

(iii) *General Services Administration* Participation certificates;

(iv) *Government National Mortgage As*sociation (GNMA or "Ginnie Mae") GNMA guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates);

(v) *US. Maritime Administration* Guaranteed Title Xl financing;

(vi) *U.S. Department of Housing and Urban Development* (HUD) Project Notes and Local Authority Bonds;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself;

(i) *Federal Home Loan Bank System* Senior debt obligations (Consolidated debt obligations);

(ii) *Federal Home Loan Mortgage Corporation* (FHLMC or "Freddie Mac") rated AAA by Standard & Poor's and Aaa by Moody's. Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) *Federal National Mortgage Association* (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) *Student Loan Market Association* (SLMA or "Sallie Mae") Senior debt obligations;

(v) *Resolution Funding Corp.* (REFCORP). Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book entry form are acceptable;

(vi) *Farm Credit System* Consolidated systemwide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAmG", "AAAm" or "Aam" or by Moody's of "Aaa" including funds from which the Trustee or its affiliates revenue fees for investment advisory or other services to such funds.

(e) Certificates of deposit ("CD") secured at all times by collateral described in (a) and/or (b) above. CD's must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P, and "Prime-1" or better by Moody's. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

(g) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1+" by S&P;

(j) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the NMFA by the Rating Agencies;

(k) Investment contracts with providers the long term, unsecured debt organization of which are rated at least "A" by the Rating Agencies; and

(l) deposits with the Treasurer of the State for investment in obligations described above.

"Prepayment" means the amount paid by a Governmental Unit pursuant to the provisions of its Loan Agreement or Securities as a prepayment of all or a portion of the principal balance due under its Loan Agreement or a prepayment of the principal amount of the Securities.

"Principal Component" means the portion of each Loan Payment representing principal on the related Loan.

"Program" means the NMFA's public project revolving fund program.

"Program Costs" means the fees and expenses payable to the Trustee, any Paying Agent and the NMFA.

"Program Fund" means the fund by that name which is created and established by the Indenture.

"Projects" means, collectively, the projects (i) authorized by the Legislature for financing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture and a Loan Agreement, Grant Agreement or Securities.

"Public Project Revolving Fund" means the public project revolving fund established pursuant to the Act.

"Purchasers" means, with respect to the Series 2006D Bonds, Piper Jaffray & Co., Cabrera Capital Markets, Inc. and Ramirez & Co., Inc.

"Rating Agencies" means Moody's Investors' Service, Inc., Standard & Poor's Ratings Group and Fitch Ratings or their successors and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds.

"Rebate Calculation Date" means, with respect to each Series of Bonds, the interest payment date next preceding the fifth anniversary of the issue date of such Series of Bonds, each fifth anniversary of the Initial Rebate Calculation Date for such Series of Bonds, and the date of retirement of the last bond for such Series.

"Rebate Fund" means the Fund so designated, which is created and established by the Indenture.

"Rebate Requirement" means the amount of arbitrage profits earned from the investment of gross proceeds of the Bonds in nonpurpose investments described in Section 148(0(2) of the Code and defined as "Rebate Amount" in Section 1.148-3 of the Treasury Regulations, which are payable to the United States at the times and in the amounts specified in Section 148(0(3) of the Code and Section 1.148-3 of the Treasury Regulations.

"Register" means the record of ownership of the Series 2006D Bonds maintained by the Registrar.

"Registered Owner" or "Bondowner" or "Owner" or "Bondholder" or "holder" means the person or persons in whose name or names a Bond will be registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture.

"Regular Record Date" means the fifteenth (15th) day immediately preceding each Interest Payment Date (or the Business Day immediately preceding such fifteenth (15th) day, if such fifteenth (15th) day is not a Business Day).

"Representation Letter" means the blanket representations letter from the NMFA to DTC in substantially the form attached to the Sixtieth Supplemental Indenture of Trust as Exhibit "B."

"Revenue Fund" means the Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund so designated, which is created and established by the Indenture to be held by the Trustee.

"Revenues" means (i) all revenues received or earned by the NMFA from or attributable to the Agreements (but excluding amounts paid as Program Costs), (ii) all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, (iii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any, and (iv) all interest earned by and profits derived from the sale of investments in the Funds and Accounts created under the Indenture (except the Rebate Fund).

"Securities" means the securities purchased or acquired by the NMFA in consideration for a Loan made pursuant to the Indenture.

"Securities Depository" means the person who operates the computerized book entry system through which ownership interest in the Series 2006D Bonds may be recorded. Such entity shall at all times be a registered clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and in good standing thereunder.

"Security Documents" means the intercept agreements or other security documents delivered by Governmental Units to provide additional security for a Loan Agreement or Securities.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefore.

"Series l995A-B Bonds" means, collectively, the Public Project Revolving Fund Revenue Bonds, Series 1995A, in an initial aggregate principal amount of $41,230,000 and the Public Project Revolving Fund Revenue Bonds, Taxable Series 1995B, in an initial aggregate principal amount of $4,000,000.

"Series 2000A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2000A, in an initial aggregate principal amount of $4,715,000.

"Series 2004B Bonds" means the Series 2004B-1 Bonds and the Series 2004B-2 Bonds.

"Series 2004C Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2004C, bearing interest at the rates herein described and in the aggregate principal amount of $168,890,000.

"Series 2005A Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2005A, in an initial aggregate principal amount of $19,015,000.

"Series 2005B Bonds" means the Public Project Revolving Fund Revenue Bonds, Series 2005B, in an initial aggregate principal amount of $13,500,000.

"Series 2006B Bonds" means the Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006B, in an initial aggregate principal amount of $38,260,000.

"Series 2006D Bonds" means the Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006D, in an initial aggregate principal amount of $56,400,000.

"Special Record Date" means a special record date established pursuant to the Indenture. "State" means the State of New Mexico.

"Supplemental Indenture" means any supplemental indenture approved by the NMFA in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture.

"Trust Estate" means the property held in trust by the Trustee pursuant to the Granting Clauses of the Indenture.

"Trustee" means Bank of Albuquerque, N.A., Albuquerque, New Mexico and its successors and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Trustee at the time serving as successor Trustee under the Indenture.

THE INDENTURE

Registration and Exchange of Bonds

Books for the registration and for the transfer of the Bonds will be kept by the Trustee which is appointed the Bond Registrar with respect to the Bonds. Any Bond may, in accordance with its terms, be transferred only upon the registration books kept by the Bond Registrar, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Registrar, duly executed. No transfer will be effective until entered on the registration books kept by the Registrar. Upon surrender for transfer of any fully registered Bond at the principal corporate trust office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing and satisfactory to the Trustee, the NMFA will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees a new, fully registered Bond or Bonds for a like aggregate principal amount. Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series and the same maturity. The execution by the NMFA of any Bond of any authorized denomination will constitute full and due authorization of such denomination, and the Trustee will thereby be authorized to authenticate and deliver such Bond. The NMFA and the Trustee will not be required to transfer or exchange any Bond of a particular Series (i) during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date, (ii) during the period from and including the day fifteen days prior to any Special Record Date, to and including the date of the proposed payment pertaining thereto, (iii) during the period from and including the day fifteen days prior to the mailing of notice calling any Bonds of a particular Series for redemption, to and including the date of such mailing, or (iv) at any time following the mailing of notice calling such Bond for redemption.

The NMFA, the Bond Registrar and the Paying Agent may treat and consider the person in whose name each Bond is registered on the registration books kept by the Registrar as the holder and absolute owner thereof for the purpose of receiving payment of, or on account of, the principal or redemption price thereof and interest due thereon and for all other purposes whatsoever, and neither the NMFA, nor the Bond Registrar nor the Paying Agent will be affected by any notice to the contrary. Payment of or on account of either principal of or interest on any Bond will be made only to or upon order of the Registered Owner thereof or such person's legal representative, but such registration may be changed as hereinabove provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

The Trustee will require the payment by the Registered Owner requesting exchange or transfer, only of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

Nonpresentment of Bonds

In the event that any Bond are not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond are made available to the Trustee for the benefit of the holder or holders thereof, all liability of the NMFA to the holder thereof for the payment of such Bond will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds, without liability to the holders of such Bonds for interest thereon, for the benefit of the holder of such Bond who will thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond. Moneys so deposited with the Trustee which remain unclaimed four (4) years after the date payment thereof becomes due will, to the extent authorized by applicable law, at the request of the NMFA and if the NMFA is not at the time to the knowledge of the Trustee in default with respect to any covenant contained in the Indenture and if to the knowledge of the Trustee there has been no Event of Default, be repaid to the NMFA and the Owners of the Bonds for which the deposit was made will thereafter be limited to a claim against the NMFA; provided that the Trustee, before making payment to the NMFA, may cause a notice to be given to the Owners of the Bonds at their registered addresses, stating that the moneys remaining unclaimed will be returned to the NMFA after a specified date. Upon payment of such amounts to the NMFA by the Trustee, the NMFA will deal with such money as required by applicable law.

Covenants of the NMFA

The NMFA will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or Supplemental Indenture or in any Bond, including the following covenants and agreements:

Covenant Against Creating or Permitting Liens. Except for the pledge of the Trust Estate to secure payment of the Bonds, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto; provided, however, that (i) nothing contained in the Indenture will prevent the NMFA from issuing, if and to the extent permitted by law, indebtedness having a lien on the Trust Estate subordinated to that of the Bonds and (ii) Revenues constituting NMFA Portion of the Governmental Gross Receipts Tax and payments of Additional Pledged Loans not needed for payments under the Indenture in any Bond Year may be released to the NMFA free and clear of the lien as provided in the Indenture.

Existence; Compliance with Laws. The NMFA will take no action to discontinue maintenance of its existence nor to impair its rights, powers, privileges, and franchises, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements, and directions of any legislative, executive, administrative, or judicial body which may relate to the execution and delivery of the Bonds and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Grant Agreements, Security Documents and Securities; Exceptions, Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Grant Agreements, Security Documents and Securities except as specifically authorized in the Indenture in furtherance of the security for the Bonds; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan Agreement, Grant Agreement, Securities, or Additional Pledge Loan and complied with the other provisions thereof, the NMFA and the Trustee may release such Agreement or Additional Pledge Loan and any Security Documents from the pledge created under the Indenture; and (ii) the NMFA may direct the release of any Agreement or Additional Pledged Loan from the lien and pledge of the Trust Estate under the Indenture upon the delivery to the Trustee of a Cash Flow Statement reflecting such release. Except to the extent otherwise provided in the Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners may be impaired and will, from time to time, execute and deliver such further instruments and will take such further action as may be required to carry out the purposes of the Indenture.

Financing Statements. The NMFA and the Trustee will cause the Indenture to be filed as a financing statement with the Secretary of State of the State, in such manner and at such places as may be required by law fully to protect the security interest of the Owners in the Bonds and the right, title, and interest of the Trustee in and to the Trust Estate. From time to time, the Trustee may, but will not be required to, obtain an opinion of counsel setting forth what, if any, actions by the NMFA or Trustee should be taken to preserve such security. The NMFA will execute or cause to be executed any and all further instruments as may reasonably be requested by the Trustee for such protection of the interests of the Registered Owners, and will furnish satisfactory evidence to the Trustee that such actions have been taken and will take such other action as is necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds executed and delivered under the Indenture has been paid. The Trustee will execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as it may be advised by an opinion of Counsel may be necessary to preserve the lien of the Indenture upon the Trust Estate created by the Indenture until the Principal of and interest on the Bonds have been paid.

Rights Under Loan Agreements; Grant Agreements, Security Documents and Securities. The Loan Agreements, Grant Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions of the Indenture, the Loan Agreements, Grant Agreements, Security Documents and Securities may not be effectively amended, changed, modified, altered or terminated without the prior written consent of the Trustee in accordance with the Indenture, and reference is made to the same for a detailed statement of said covenants and obligations of the Governmental Units thereunder.

Bonds to be Tax-Exempt Obligations. The NMFA covenants and agrees to and for the benefit of the Owners of Bonds that the NMFA (i) will not take any action that would cause interest on the Bonds to become subject to federal income taxation, (ii) will not omit to take or cause to be taken, in timely manner, any action, which omission would cause the interest on the Tax-exempt Bonds to become subject to federal income taxation, and (iii) will, to the extent possible, comply with any other requirements of federal tax law applicable to the Bonds in order to preserve the exemption from federal income taxation of interest on the Bonds. The provisions of this paragraph do not apply to Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

State Pledge of Non-Impairment. The State has pledged to and agreed with the Bondholders (as an obligation issued under the Act) that the State will not limit or alter the rights vested in the NMFA under the Act to fulfill the terms of the Indenture with the Bondholders or in any way impair the rights and remedies of those holders until the Bonds together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

Deposit and Advance of Funds

The NMFA and the Trustee will deposit the proceeds of the Bonds to the Accounts created under the Indenture and will make the advances of funds thereunder to fund the Program and the NMFA will enter into the Loan Agreements and Grant Agreements with the Governmental Units and purchase and receive the Securities and Security Documents from the Governmental Units on the terms and conditions and upon submission of the documents as provided in the Indenture.

Loan Agreement and Securities - Loan Payments

The Loan Payments will be governed by the following provisions:

(a) Principal, Program Costs and Interest Components. A portion of each Loan Payment is paid as, and represents payment of, interest (the "Interest Component") on the related Loan and payment of a Program Cost component relating to each loan (the "Program Cost Component") and the balance of each Loan Payment is paid as, and represents payment of, principal (the "Principal Component") on the related Loan, all as set forth in the related Loan Agreement or Securities. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on each Loan Payment Date. The Interest Component of Loan Payments for each Loan Agreement will be the amount of interest based on a 360-day year comprised of twelve 30-day months, unless otherwise specified in the related Supplemental Indenture. The Program Cost Component may be included in the interest rate borne by a Loan.

(b) Loan Agreement and Securities Term. The "Term" of a Loan Agreement or Securities will be defined in the Loan Agreement or Securities. The Term will not exceed the useful life of the Project financed pursuant to the related Loan Agreement or Securities.

(c) Agreement Payment. Each Loan Agreement and Security will provide that the related Governmental Unit will pay Loan Payments directly to the NMFA on or before Loan Payment Dates for remittance to the Trustee (less a quarter of one percent (0.25%) administration fee retained by the NMFA for the payment of Program Costs) prior to each Interest Payment Date. In the case of Securities, the Securities will be registered in the name of the Trustee or properly assigned to the Trustee on the books of any registrar for such Securities or, if in bearer form delivered to and held by the Trustee.

(d) Prepayments. The Loan Agreements and Securities may contain a provision permitting the Governmental Unit to prepay the Principal Component of the Loan Payments, in accordance with the provisions of the Loan Agreement and Securities by payment of Prepayments in whole on any date or in part on any Interest Payment Date, at any time when the related Series of Bonds are or are about to become subject to optional redemption upon not less than forty-five (45) days' prior written notice to the Trustee and subject to any other conditions set forth in the related Supplemental Indenture, Loan Agreement or Securities. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination. Each Prepayment will include interest to the date upon which the Trustee has scheduled a related redemption of Bonds as provided in the related Supplemental Indenture.

(e) Use of Reserve at Final Payment. At the time of payment in full of each Loan Agreement or Securities, the applicable Agreement Reserve Account in the Agreement Reserve Fund will be applied toward the final payment of amounts due under the related Loan Agreement or Securities.

Establishment of Funds and Accounts

There is established in the Indenture with the Trustee the following funds and accounts within funds, each of which will be held, for the term of the Indenture, in Accounts segregated from all other moneys of the Trustee or the NMFA.

(a) a Program Fund and within such fund a separate Account for each Agreement;

(b) a Debt Service Account and within such fund a separate Account for each Agreement, which separate Account is established and maintained by the NMFA;

(c) a Bond Fund;

(d) an Agreement Reserve Fund and within such fund, a separate Account for each Agreement which contemplates the establishment of an Agreement Reserve Account;

(e) an Expense Fund;

(f) a Rebate Fund and within such fund a separate Account for each Agreement; and

(g) a Governmental Gross Receipts Tax and Additional Pledged Loan Revenue Fund (the "Revenue Fund") established as an account of the Public Project Revolving Fund.

In addition to the foregoing, with respect to Additional Pledged Loans the Trustee may, as directed in a Supplemental Indenture, establish subaccounts within the Program Fund, the Agreement Reserve Fund or the Debt Service Account for such Additional Pledged Loans.

Flow of Funds

All Funds will be accounted for and maintained by the NMFA in the Funds and Accounts established in the Indenture. Each Fund and Account will be kept separate and apart from all other Funds and Accounts of the NMFA. The Funds will be expended and used by the Trustee and the NMFA only in the manner of order and priority specified below:

Program Fund. Upon the issuance of a Series of Bonds the Trustee will deposit an amount specified in the related Supplemental Indenture in the Program Fund and will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement. Disbursements from each Account within the Program

Fund may be made in stages. Disbursements from each Account within the Program Fund with respect to an Agreement with a Governmental Unit will (except for amounts to be used for capitalized interest on the Loan and as may be directed in a Supplemental Indenture with respect to Grants) only be made upon the delivery to the Trustee of a requisition substantially in the form attached to each Agreement signed by an Authorized Officer of the Governmental Unit.

Application of Loan Payments. The flow of funds is discussed in the forepart of this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds."

Pursuant to the Supplemental Indenture authorizing the Series 2000A Bonds, the payments required to be made by the 2000A Governmental Unit pursuant to the 2000A Agreement are to be paid directly to the Trustee from the New Mexico Taxation and Revenue Department pursuant to an Intercept Agreement between NMFA and the 2000A Governmental Unit, and the Trustee is to deposit all such payments immediately upon receipt thereof as follows:

(i) moneys identified by the NMFA as being from the receipt of the Correctional Facility Tax will be deposited into the Series 2000A Correctional Facility Tax Account and moneys identified by the NMFA as being from the receipt of the 2000A Governmental Unit Gross Receipts Tax will be deposited into a Series 2000A Governmental Unit Gross Receipts Tax Account, both in the Series 2000A Tax Revenue Fund;

(ii) moneys on deposit in the Series 2000A Correctional Facility Tax Account will be applied as follows:

First: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Debt Service Account in an amount required to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent moneys are available for such purpose, to the payment of Program Costs;

Third: to the extent moneys are available for such purpose, to the 2000A Governmental Unit's Account in the Agreement Reserve Fund until such time as the balance on deposit in said Account equals the Agreement Reserve Requirement of such Account; and

Fourth: to the extent moneys are available for such purpose, to the Series 2000A Correctional Facility Tax Redemption Fund to annually redeem Series 2000A Bonds on or as soon as is reasonably practicable after June 2 from moneys deposited prior to the preceding June 1 in accordance with the Supplemental Indenture. Any excess Correctional Facility Tax revenues not applied to redemption will be returned to the 2000A Governmental Unit Debt Service Account.

(iii) moneys on deposit in the Series 2000A Governmental Unit Gross Receipts Tax Account will be applied as follows:

First: to the extent moneys from the Series 2000A Correctional Facility Tax Account deposited into the 2000A Governmental Unit Debt Service Account and the 2000A Governmental Unit Agreement Reserve Account in the Agreement Reserve Fund are insufficient to meet the then required principal and interest payments due or to next become due with respect to the 2000A Agreement, to the 2000A Governmental Unit's Debt Service Account the amount necessary to cause the aggregate amount on deposit therein to equal the amount then required to make the principal and interest payments due or to next become due with respect to the 2000A Agreement;

Second: to the extent money from the Series 2000A Correctional Facility Tax Account are insufficient to pay the 2000A Governmental Unit's share of Program Costs, an amount necessary to pay such Program Costs; and

Third: to the 2000A Governmental Unit, the balance of the moneys remaining in the Series 2000A Governmental Unit Gross Receipts Tax Account as soon as reasonably practicable after June 2 of each year.

All income earned from the investment of moneys in the respective Accounts of the Debt Service Account and the Agreement Reserve Fund (but only to the extent that the amount on deposit therein exceeds the related Agreement Reserve Requirement), will be deposited in the related Account of the Debt Service Account and applied as a credit to the Loan Payment next coming due under the Agreement, provided, however, that all earnings received on the Governmental Unit's Accounts will be allocated solely to the benefit of such Governmental Unit. The Trustee will notify the Governmental Unit at least fifteen (15) days prior to the due date of its next payment of Loan Payments of the amount of earnings so allocated.

In the event that the Trustee receives Prepayments under a Loan Agreement or Securities, the Trustee will apply such Prepayments to the mandatory redemption of the Bonds or portions thereof in accordance with the related Supplemental Indenture, except with respect to the Series 2004B and each series of Bonds issued thereafter, which are subject to the provisions of the Indenture discussed in the forepart of this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Application of Loan Prepayments."

At least once a year the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account on Interest Payment Dates for the Bonds from payments relating to a Governmental Unit's Agreement, (ii) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (iii) to pay the Governmental Unit's share of Program Costs for the year, and will return any excess which the Trustee does not expect to be required for such payments to the related Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; provided, however, that with respect to Loans relating other than to the Series 2000A Bonds, any such excess will be disbursed as follows:

(a) Any excess attributable to earnings on funds and accounts for the Governmental Unit will be returned to the Governmental Unit or will credit such excess to the Loan Payments next coming due under the Governmental Unit's Agreement; and

(b) Any excess attributable to the difference in interest rates on the Governmental Unit's Loan and the relevant Bonds will be deposited into the Revenue Fund; and, provided further, however, that with respect to the Series 2000A Loan Agreement, any such excess will be disbursed as provided in the second paragraph under this heading "Application of Loan Payments" above.

Amounts on deposit in the respective Account of the Agreement Reserve Fund in excess of the related Agreement Reserve Account Requirement will be transferred at least annually to the related Accounts of the Debt Service Account and credited against payments next coming due under such Loan Agreement or Securities.

Amounts on deposit in the respective Account of the Agreement Reserve Fund will be applied toward the final payment of amounts falling due under the related Loan Agreement or Securities.

As provided in an Agreement, a Governmental Unit may (i) fund an Account in the Agreement Reserve Fund over time from deposits made by or on behalf of the Governmental Unit or (ii) may use any reserve fund surety or similar investments in lieu of a cash deposit to the Agreement Reserve Fund.

Amounts on deposit in each Agreement Reserve Account, if any, secure only the payments to be made under the related Agreement and may not be applied toward payments under any other Agreement or toward payment of the Bonds, except to the extent that amounts are due and owing under the related Agreement and amounts are not otherwise available for such payments in related Account of the Debt Service Account.

All moneys held by the Trustee in the Bond Fund will be applied in accordance with the Indenture to pay the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and the interest on Bonds as it becomes payable. There will be deposited into the Bond Fund all accrued interest received, if any, at the time of the execution, sale and delivery of the Bonds.

Amounts remaining on deposit in the Bond Fund at the end of each Bond Fund Year and after payment of all amounts due on the Bonds for such Bond Fund Year will be transferred to the Revenue Fund.

Investment of Moneys

Any moneys held as part of a Governmental Unit's Account in any of the Funds established under the Indenture will be invested and reinvested by the Trustee at the direction of the related Governmental Unit in Permitted Investments in accordance with the following provisions.

Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due. In the absence of an appropriate direction from a Governmental Unit as to investment of funds, the Trustee will invest and reinvest such amounts in a daily money market fund which invests only in United States Government Obligations.

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established under the Indenture or (ii) by the NMFA as agent for the Trustee will be invested and reinvested by the NMFA or the Trustee, as the case may be, at the direction of the related Governmental Unit in Permitted Investments as directed by the Loan Agent or the Securities and in accordance with the following provisions.

The Trustee or the NMFA will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in the related Debt Service Account is insufficient to pay the principal of and premium, if any, and interest on the related Loan Agreement or Securities when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund or the Bond Fund will be invested and reinvested by the Trustee at the direction of the NMFA only in Permitted Investments in accordance with the Indenture. Any such investments will be held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of the investments on deposit in the Bond Fund whenever the cash balance in the Bond Fund is insufficient to pay the principal of and premium, if any, and interest on the Bonds when due.

All such investments will at all times be a part of the account or fund from where the money used to acquire such investments was deposited and all gains thereon will be credited to, and losses thereon will be charged against, such accounts or funds except as expressly provided to the contrary in the Indenture.

All investments will mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the owner on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

The principal of the investments and the interest, income, and profits received in respect thereof will be applied as follows:

(i) all interest, income, and profits received in respect of the investment of the amounts on deposit in a Governmental Unit's Account in any of the Funds established under the Indenture will (after deduction of any losses) be retained in the applicable Governmental Unit's Account from which the investment was derived (except as otherwise required with respect to the Agreement Reserve Fund and deposits to be made to the Rebate Fund); and

(ii) all interest, income, and profits received in respect of the investment of the amounts on deposit in the Revenue Fund, the Rebate Fund or the Bond Fund will (after deduction of any losses) be retained in such Fund; and

(iii) whenever any other transfer or payment is required to be made from any particular Fund or Account, such transfer or payment will be made from such combination of maturing principal, redemption, or repurchase prices, liquidation proceeds, and withdrawals of principal as the Trustee deems appropriate for such purpose, after taking into account such factors as future transfers or payments from the Fund or Account in question, the reinvestment opportunities for maturing principal, the current yield on any permitted investments to be redeemed, withdrawn, or sold, and any penalties, gains, or losses to be realized upon any such redemption, withdrawal, or sale.

The Trustee will not be accountable for any depreciation in the value of the Permitted Investments or any losses incurred upon any authorized disposition thereof.

Method and Frequency of Valuation. In computing the amount in any Fund or account, Permitted Investments will be valued at least annually at cost, including commissions and accrued interest but excluding interest accrued following acquisition.

Defeasance

When there has been paid, or provisions for payment have been made to or for the holders and Owners of the Bonds, the principal of and premium, if any, and interest due or to become due on the Bonds at the times and in the manner stipulated therein, and if there has been paid to the Trustee and any paying agents all sums of money due or to become due according to the provisions of the Indenture, then the estate and rights granted by the Indenture will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture and on demand of the NMFA will execute such documents to evidence such release as will be reasonably required by the NMFA and will turn over to the NMFA all balances held by the Trustee under the Indenture (other than amounts required for return to the Governmental Units as provided in the Indenture).

Any Bond will be deemed to be paid within the meaning of and for all purposes of the Indenture when (a) payment of the principal of and the applicable premium, if any, on such Bond, whether at maturity or prior redemption plus interest thereon to the due date thereof, either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent has irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment, and/or (2) noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond is deemed to be paid under the Indenture, as aforesaid, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or noncallable Governmental Obligations.

Notwithstanding anything in the Indenture to the contrary, all moneys so deposited with the Trustee (or other escrow agent) as provided in the defeasance provisions of the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amount and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys have been so deposited, will be deposited in the Revenue Fund as and when realized and collected for use and application as are other moneys deposited in that fund.

All moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the defeasance provisions of the Indenture for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and noncallable Governmental Obligations have been so set aside in trust.

Neither the obligations nor the moneys deposited with the Trustee (or other escrow agent) pursuant to the defeasance provisions of the Indenture will be withdrawn or used for any purpose other than, and will be segregated and held in trust for, the payment of the principal or redemption price of, and interest on, the Bonds or portions thereof.

Whenever moneys or obligations are deposited with the Trustee (or other escrow agent) for the payment or redemption of any Bonds more than sixty (60) days prior to the date that such Bonds are to mature or be redeemed, the Trustee will mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held, to all Owners of Bonds for the payment of which such moneys or obligations are being held.

Notwithstanding anything in the Indenture to the contrary, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the defeasance provisions of the Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture will be made without the consent of the Registered Owner of each Bond affected thereby.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on any Series of Bonds is paid by a bond insurer with respect to such Series of Bonds pursuant to a financial guaranty insurance policy, the Bonds of such Series will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the NMFA, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the NMFA to the Registered Owners and related Security Instrument Issues of such Series of Bonds will continue to exist and will run to the benefit of such bond insurer, and such bond insurer will be subrogated to the rights of such Registered Owners and related Security Instrument Issues of such Series of Bonds.

Default Provisions and Remedies of the Trustee and Owners

Events of Default Defined. Each of the following events is an "Event of Default" under the Indenture:

(a) if payment of any installment of interest on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable; or

(b) if payment of the principal of or the redemption premium, if any, on any of the Bonds is not be made by or on behalf of the NMFA when the same becomes due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any fund hereunder or otherwise; or

(c) if the NMFA is for any reason rendered incapable of fulfilling its obligations under the Indenture; or

(d) if an order or decree is entered, with the consent or acquiescence of the NMFA, appointing a receiver or custodian for any of the Revenues of the NMFA, or approving a petition filed against the NMFA seeking reorganization of the NMFA under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the NMFA will not be vacated or discharged or stayed on appeal within 30 days after the entry thereof, or

(e) if any proceeding is instituted, with the consent or acquiescence of the NMFA, for the purpose of effecting a composition between the NMFA and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Revenues; or

(f) if (i) the NMFA is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the NMFA, a receiver, Trustee or custodian of the NMFA or of the whole or any part of their property and any of the aforesaid adjudications, orders, judgments or decrees is not vacated or set aside or stayed within 60 days from the date of entry thereof; or

(g) if the NMFA files a petition or answer seeking reorganization, relief or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the NMFA or of the whole or any substantial part of the property of the NMFA, and such custody or control is not terminated within 30 days from the date of assumption of such custody or control; or

(i) if the NMFA defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture or any Supplemental Indenture on the part of the NMFA to be performed, other than as set forth above in this section and such Default continues for 30 days after written notice specifying such Event of Default and requiring the same to be remedied has been given to the NMFA by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Registered Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding.

Remedies of the Trustee. If an Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce the rights of the Owners of the Bonds under the Indenture, including enforcing any rights under the Agreements and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds against the NMFA and any related Governmental Unit, and compel the NMFA and any related Governmental Unit, to perform or carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Indenture or in any Agreement (including the appointment of a receiver); or

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) intervene in judicial proceedings that affect the Bonds, the Agreements, or the security therefor; or

(d) exercise any or all remedies permitted under the Agreements or Security Documents; or

(e) cause the NMFA or any related Governmental Unit to account as if it were the Trustee of an express trust for all of the Revenues or Agreement Pledged Revenues, pledged under the Indenture or pursuant to the Agreements and any Security Documents.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by the Indenture may be enforced and exercised from time to time and as often as may be deemed expedient by the Trustee or the Owners.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners, the NMFA, and the Governmental Units will be restored to the former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Owners under the Indenture is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be extended without exhausting and without regard to any other remedy conferred by any law.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and the performance of the other agreements and covenants required to be performed by it contained in the Agreements and Security Documents, the Governmental Units will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Loan Payments, by the Trustee, or with respect to the performance by the NMFA of any right or obligation required to be performed by it contained in the Indenture or for the performance by any other Governmental Unit of such other Governmental Unit's obligations under an Agreement or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, for the appointment of a receiver or Trustee or for any other remedy, at law or in equity, unless:

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default; (b) the Owners of not less than a majority of the aggregate principal amount of the Bonds Outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;

(c) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

No one or more Owners has any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Bond Owners. Notwithstanding the foregoing, the Owner of any Bond has the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms of the Bonds and the Indenture and the principal of such Bond at the stated maturity of the Bonds and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights will not be impaired without the consent of such Owner.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee, provided that such direction is not in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Owners of Bonds.

Application of Funds Upon Default. All moneys received by the Trustee or by any receiver pursuant to any right given or action taken under the default provisions of the Indenture or under the provisions of the related Agreements, will, after payment of the reasonable costs and fees of, and the reasonable expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and all moneys so deposited during the continuance of an Event of Default (other than moneys deposited to the Bond Fund for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default), together with all moneys in the Funds maintained by the Trustee or the NMFA under the Indenture, will be applied as follows:

(a) Unless the principal of all Bonds shall have become due and payable, all such moneys will be applied, as follows:

First: To the payment to the persons or entity entitled thereto of all installments of interest then due on the Bonds, in the order of maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons or entity entitled thereto without any discrimination or privilege;

Second: To the payment to the persons or entity entitled thereto of the unpaid principal of and any of the Bonds which have become due (other than Bonds called for prepayment for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons or entities entitled thereto without any discrimination or privilege; and

Third: To be held for the payment to the persons entitled thereto as the same become due of the principal of, the premium, if any, and interest on the Bonds which may thereafter become due at maturity and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds becomes due and payable all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with the interest on overdue principal, as aforesaid, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other certificates, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee may determine, having due regard for the amount of such moneys available for such application in the future. Whenever the Trustee applies such moneys it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such date and of the Special Record Date in accordance with the Indenture. The Trustee will not be required to make payment to the holder of any unpaid Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and will do so upon the written request of the Registered Owners of (a) a majority in aggregate principal amount of all the Bonds then outstanding in respect of which Default in the payment of principal and interest exist, or (b) a majority in aggregate principal amount of the Bonds then Outstanding in the case of any other Event of Default; provided, however, that there will not be waived (i) any Event of Default in the payment of the principal of any Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such Event of Default has occurred on overdue installments of interest and all arrears of payments of principal and premium, if any, when due and all expenses of the Trustee, in connection with such Event of Default has been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the NMFA, the Trustee and the Registered Owners will be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any right consequent thereon.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The NMFA and the Trustee may, without consent of, or notice to, any of the Owners enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To provide for the issuance of Additional Bonds in accordance with the provisions of the Indenture;

(b) To cure any ambiguity or formal defect or omission in the Indenture;

(c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;

(d) To subject to the Indenture additional revenues, properties or collateral;

(e) To evidence the appointment of a separate Trustee or paying agent or the succession of a new Trustee or paying agent under the Indenture;

(f) To make any other change which in the judgment of the Trustee is not materially adverse to the interests of the Trustee or any of the Owners;

(g) To make any amendments with the prior written confirmation from of the Rating Agency that such amendments will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment; and

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred upon the NMFA in the Indenture or any Governmental Unit or to grant additional powers or rights to the Trustee.

Supplemental Indentures Requiring Consent of Owners. Exclusive of supplemental indentures covered by the foregoing section and subject to the following terms and provisions and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the NMFA and the Trustee of such other indenture or indentures supplemental to the Indenture as may be deemed necessary and desirable by the NMFA for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing in this section or in the foregoing section will permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond, or (ii) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indentures, or (v) permit the creation of any lien ranking prior to the lien of the Indenture on the Trust Estate or any part thereof, or (vi) deprive the Owner of any Bond then outstanding of the lien created by the Indenture on the Trust Estate without the prior consent of one hundred percent (100%) of the holders of the Bonds affected by such supplemental indenture. The Trustee may, but is not obligated to, enter into any such supplemental indenture which adversely affects the Trustee's rights, duties or immunities under the Indenture or the Agreements.

If at any time the NMFA requests the Trustee to enter into any such supplemental indenture for any of the purposes of this section, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be given by registered or certified mail to the owner of each Bond shown by the list of Owners kept at the office of the Trustee. Such notices will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners. If, within one hundred twenty (120) days or such longer period as the holders of not less than a majority in aggregate principal amount of the Bonds outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Governmental Units from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided, the Indenture will be and be deemed to be modified and amended in accordance therewith.

Amendment of Agreements and Security Documents.

(a) The NMFA will have the right to amend an Agreement and any existing Security Documents with the Consent of the Trustee and the related Governmental Unit without Bond Owners' consent, for one or more of the following purposes:

(i) to add additional covenants of the NMFA or the related Governmental Unit, as applicable, or to surrender any right or power conferred upon the NMFA or the related Governmental Unit;

(ii) to make any amendments with the prior written confirmation from the Rating Agencies that such amendment will not result in the rating on the Bonds following such amendment being lower than the rating on the Bonds immediately prior to such amendment;

(iii) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained therein or in any amendment thereto which may be defective or inconsistent with any other provision contained therein or in the Indenture or in any amendment thereto or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under any Agreement, or Security Documents which in the judgment of the Trustee do not adversely affect the interests of the Owners of Bonds; or

(iv) to make any other change or amendment upon the delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

(b) If the NMFA or a Governmental Unit propose to amend an Agreement or related Security Documents in a manner not contemplated by (a) above the Trustee will notify the Owners of the Bonds of the proposed amendment and may consent thereto with the consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding.

Fees, Charges and Expenses of the Trustee

Upon an Event of Default, but only upon an Event of Default, the Trustee will have a right of payment prior to payment on account of interest or principal of, or premium, if any, on any Bond for the Trustee's advances, fees, costs and expenses incurred.

APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic descriptions are furnished for information only. The Bonds do not constitute a general obligation of the State and are special limited obligations of NMFA payable solely from the Trust Estate. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2006D Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State

Generally

The State was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than seventy percent (70%) sunshine year-round. Humidity ranges from sixty percent (60%) (mornings) to thirty percent (30%) (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from two inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per diem and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the 12th fastest growing state, as the population increased twenty and one-tenth percent (20.1%) from the 1990 population of 1,515,069. Over the same period of time, the national population grew thirteen and two-tenths percent (13.2%).

Most of this population growth is occurring in or near the large cities. There are four Metropolitan Statistical Areas ("MSAs") in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is in Doña Ana County; the Santa Fe MSA is in Santa Fe County; and the Farmington MSA is in San Juan County. The fastest growing counties in the state are Torrance, Lincoln, Valencia, Sandoval, Catron and Luna.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table presents quarterly average data on employment for the State by industry compiled by the State Department of Labor for the third quarter of 2005.

State of New Mexico
Employment by Industry Group[1]
Third Quarter 2005

Industry	Employment
Agriculture, Forestry, Fishing & Hunting	13,473
Mining	17,166
Utilities	5,717
Construction	58,377
Manufacturing	36,750
Wholesale Trade	23,056
Retail Trade	94,527
Transportation and Warehousing	19,492
Information	15,759
Finance & Insurance	23,045
Real Estate & Rental & Leasing	11,145
Professional & Technical Services	43,286
Management of Companies & Enterprises	5,556
Administrative & Waste Services	46,526
Education Services	71,524
Health Care & Social Assistance	106,906
Arts, Entertainment & Recreation	19,170
Accommodation & Food Services	79,639
Other Services, Except Public Administration	22,436
Public Administration	59,662
Unclassified	713

(1) Employment is categorized using the North American Industry Classification System (NAICS).

Source: New Mexico Department of Labor, April 2006

State of New Mexico and United States
Wages and Salaries by NAICS Industry Sector
2004-05[1]
(Thousands of Dollars)

	New Mexico		United States	
	2004	2005[2]	2004	2005[2]
Farm Total	$ 173,241	$ 194,000	$ 19,726,000	$ 22,064,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	$ 80,593	$ 82,000	$ 17,213,000	$ 18,328,000
Mining	774,692	915,000	34,806,000	40,809,000
Utilities	225,456	250,000	41,031,000	43,197,000
Construction	1,640,782	1,874,000	292,657,000	319,765,000
Manufacturing	1,465,812	1,548,000	687,534,000	721,873,000
Wholesale Trade	899,181	970,000	305,857,000	327,709,000
Retail Trade	2,152,348	2,278,000	380,235,000	401,704,000
Transportation & Warehousing	729,437	781,000	172,057,000	182,508,000
Information	518,567	564,000	190,644,000	198,783,000
Finance & Insurance	942,346	979,000	422,180,000	443,784,000
Real Estate & Rental & Leasing	296,811	311,000	80,772,000	88,866,000
Professional & Technical Services	2,446,990	2,513,000	449,970,000	489,646,000
Management of Companies & Enterprises	237,959	276,000	136,157,000	146,629,000
Administrative & Waste Services	1,116,330	1,202,000	214,708,000	233,940,000
Educational Services	221,635	245,000	84,793,000	90,872,000
Health Care & Social Assistance	2,742,166	2,942,000	532,315,000	570,123,000
Arts, Entertainment & Recreation	149,797	161,000	56,429,000	58,864,000
Accommodation & Food Services	982,477	1,046,000	169,272,000	181,658,000
Other Services, Except Public Administration	780,615	835,000	169,532,000	178,742,000
Non Farm Government				
Government & Government Enterprises	$ 7,911,645	$ 8,360,000	$ 926,012,000	$ 957,975,000
Non Farm Total	$26,315,639	$28,130,000	$5,364,174,000	$5,695,772,000
TOTAL	$26,488,880	$28,324,000	$5,383,900,000	$5,717,836,000

(1) Revised state personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available state-level source data.
(2) Currently only quarterly data is available for 2005. The annual figures represent the average of the quarterly data rounded to the nearest thousand.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 2006

State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1996-2005

	Civilian Labor Force		Number Employed		Unemployment Rate		
Year	N.M.	U.S. (000s)	N.M.	U.S. (000s)	N.M.[1]	U.S.[1]	NM as % of U.S. Rate[2]
1996	812,862	133,944	751,826	126,708	7.5%	5.4%	139%
1997	822,627	136,297	768,596	129,558	6.6%	5.0%	135%
1998	835,879	137,673	783,661	131,464	6.2%	4.5%	138%
1999	839,988	139,368	793,052	133,488	5.6%	4.2%	133%
2000	852,293	142,583	810,024	136,891	5.0%	4.0%	125%
2001	863,682	143,734	821,003	136,934	4.9%	4.7%	104%
2002	875,631	144,863	827,303	136,485	5.5%	5.8%	95%
2003	893,118	146,510	840,422	137,736	5.9%	6.0%	98%
2004	914,538	147,401	862,422	139,252	5.7%	5.5%	104%
2005	935,888	149,320	886,724	141,730	5.3%	5.1%	104%

(1) Figures rounded to nearest tenth of a percent.
(2) Figures rounded to nearest whole percent.

Source: U.S. Department of Labor, Bureau of Labor Statistics, April 2006

State of New Mexico and United States
Per Capita Personal Income
1996-2005[1]

	Per Capita Income			Annual % Change	
Year	New Mexico	U.S.	NM as % of U.S.[2]	New Mexico[3]	U.S.[3]
1996	19,029	24,175	79%	3.3%	4.8%
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77%	4.9%	6.1%
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,134	29,845	74%	5.2%	6.8%
2001	24,085	30,574	79%	8.8%	2.4%
2002	24,246	30,810	79%	0.7%	0.8%
2003	24,892	31,484	79%	2.7%	2.2%
2004	26,184	33,050	79%	5.2%	4.7%
2005[4]	27,644	34,586	80%	5.6%	4.6%

(1) Revised state personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available state-level source data.
(2) Figures rounded to nearest whole percent.
(3) Figures rounded to nearest tenth of a percent.
(4) Preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2006

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

[Form of Modrall, Sperling, Roehl, Harris & Sisk, P.A. Opinion]

New Mexico Finance Authority
207 Shelby Street
Santa Fe, New Mexico 87501

Bank of Albuquerque, N.A.
Trust Division
201 Third Street, Suite 1400
Albuquerque, New Mexico 87102

Re: New Mexico Finance Authority Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006D

We have acted as bond counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Senior Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2006D in the aggregate principal amount of $56,400,000 (the "Series 2006D Bonds"). The Series 2006D Bonds are being issued to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans"), (ii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition), proceeds of which shall be used to finance the acquisition and improvement of an office complex for use by the State; (iii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006B (Refunding Project), proceeds of which shall be used to refund the outstanding New Mexico Finance Authority State Office Building Tax Revenue Bonds, Series 2002A; and (iv) pay costs incurred in connection with the issuance of the Series 2006D Bonds. The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 *et seq.*, NMSA 1978, as amended and supplemented (the "Act"). The Series 2006D Bonds are authorized to be issued under and secured by a General Indenture of Trust and Pledge dated June 1, 1995 (the "General Indenture"), as previously supplemented and amended and as supplemented by a Sixty-Seventh Supplemental Indenture of Trust dated as of July 1, 2006 (together with the General Indenture, the "Indenture") between the NMFA and the Bank of Albuquerque, N.A., Albuquerque, New Mexico (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 *et seq.*, NMSA 1978, as amended and supplemented (the "Act"). The Series 2006D Bonds are authorized to be issued under and secured by a General Indenture of Trust and Pledge dated June 1, 1995 (the "General Indenture"), as amended and supplemented by a Sixty-Seventh Supplemental Indenture of Trust dated as of July 1, 2006 (together with the General Indenture, the "Indenture") between the NMFA and the Bank of Albuquerque, N.A., Albuquerque, New Mexico (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have reviewed the Indenture, certificates of the Attorney General of the State, as counsel to the NMFA, the NMFA, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, it is our opinion that:

1. The NMFA is a public body politic and corporate, separate and apart from the State, duly organized and validly existing under the laws of the State, and has lawful authority to issue the Series 2006D Bonds.

2. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Trust Estate pledged under the Indenture to secure the payment of the principal of and interest on Series 2006D Bonds subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2006D Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Trust Estate and do not constitute a debt or liability of the State, the NMFA or any Governmental Unit within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2006D Bonds and the enforceability thereof and of the Indenture maybe subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Series 2006D Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2006D Bonds or any other offering material relating to the Series 2006D Bonds and we express no opinion relating thereto;

(d) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result; and

(e) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

Respectfully submitted,

[Form of Opinion of Ballard Spahr Andrews & Ingersoll, LLP]

New Mexico Finance Authority
207 Shelby Street
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006D

We have acted as special tax counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006D in the principal amount of $56,400,000 (the "Series 2006D Bonds"). The Series 2006D Bonds are being issued to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities ("Governmental Units") for the purpose of funding public projects for such Governmental Units ("Loans"), (ii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition), proceeds of which shall be used to finance the acquisition and improvement of an office complex for use by the State; (iii) purchase, contemporaneously with the issuance of the Series 2006D Bonds, the New Mexico Finance Authority State Building Tax Revenue Bonds, Series 2006B (Refunding Project), proceeds of which shall be used to refund the outstanding New Mexico Finance Authority State Office Building Tax Revenue Bonds, Series 2002A; and (iv) pay costs incurred in connection with the issuance of the Series 2006D Bonds.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2006D Bonds. The NMFA and the Governmental Units have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2006D Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2006D Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and the Governmental Units with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2006D Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as follows:

1. Interest on the Series 2006D Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Under the laws of the State of New Mexico as enacted and construed on the date hereof, interest on the Series 2006D Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2006D Bonds; and

(b) although we have rendered an opinion that interest on the Series 2006D Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D Bonds.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2006D Bonds. The Series 2006D Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2006D Bond certificate will be issued for each maturity of the Series 2006D Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2006D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2006D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006D Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations provided details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2006D Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2006D Bonds, except in the event that use of the book-entry system for the Series 2006D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006D Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2006D Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006D Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series 2006D Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2006D Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the NMFA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2006D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Series 2006D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the NMFA or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2006D Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the NMFA does not have responsibility for distributing such notices to the Beneficial Owners.

The NMFA does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2006D Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2006D Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Series 2006D Bonds.

APPENDIX F

OTHER NMFA PROGRAMS AND PROJECTS

Workers' Compensation Administration Building Financing

In 1994, the Legislature authorized the NMFA to sell $6,000,000 in revenue bonds for the acquisition of land and site improvements to the land and the planning, design, construction, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided for the pledge to the NMFA for payment of the revenue bonds associated with the WCA project of a portion of the quarterly Workers' Compensation assessment paid to the State. In July 1995, the NMFA publicly sold $2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold $4,310,000 in long-term bonds to retire the outstanding bonds and to finance the construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

University of New Mexico Health Sciences Center Project

In 1993, the Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of $6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center. These bonds are expected to mature in July, 2006.

In 2003, the Legislature authorized the NMFA to issue up to $60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. In 2005, the Legislature authorized an additional $15 million of revenue bonds. NMFA is authorized to secure the additional bonds by a pledge of funds from the PPRF with a lien priority on the PPRF, as determined by the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA issued the first series of the bonds in an aggregate principal amount of $39,035,000 on April 1, 2004 and a second series of the bonds in an aggregate principal amount of $10,000,000 on September 22, 2004. On August 30, 2005, the NMFA issued the third series in an aggregate principal amount of $23,630,000 and purchased these bonds using proceeds of PPRF Subordinate Lien Revenue Bonds Series 2005E.

Department of Health Projects

Also, in 2005, the Legislature authorized the NMFA to issue another series of revenue bonds secured by a separate distribution of cigarette tax receipts in an aggregate amount not to exceed $39,000,000 for improvements to the southern New Mexico rehabilitation center, the Las Vegas medical center, the Fort Bayard medical center and for purchasing land, building, designing and constructing and equipping a state laboratory facility in Bernalillo County for the New Mexico Department of Health.

Behavioral Health Care Capital Fund

The 2004 Legislature created the Behavioral Health Capital Fund to provide low-cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. In 2005, the New Mexico Legislature authorized the NMFA to issue up to $2,500,000 secured by a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA to capitalize the NMFA's Behavioral Health Capital Fund. Pursuant to the 2005 legislative authorization, the NMFA issued on February 28, 2006, $2,500,000 of taxable cigarette tax bonds which it placed privately with a New Mexico based financial institution.

Child Care Revolving Loan Fund

Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the NMFA with the Children Youth and Families Department to provide low-cost financing to licensed child care providers.

Statewide Economic Development Finance Act

With the passage of the Statewide Economic Development Finance Act ("SWEDFA"), the 2003 Legislature authorized the NMFA to issue taxable and tax-exempt bonds, make loans and provide loan and bond guarantees on behalf of private for-profit and not-for-profit entities. The 2005 Legislature appropriated $10 million to the Economic Development Revolving Fund authorized under SWEDFA from which the NMFA will buy portions of bank loans made to New Mexico businesses.

Primary Care Capital Fund

In 1994, a $5,000,000 revolving fund was created in the State treasury to be administered by the NMFA and from which loans and contracts for services would be provided to primary care health clinics and agencies in rural or other healthcare underserved areas of the State. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Department of Health and the NMFA have negotiated a joint powers agreement whereby the Department of Health will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Department of Health adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded 13 loans totaling $6,629,659.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to $1,585,000,000 in bonds for the purpose of financing state transportation projects. The NMFA sold $700,000,000 of its State Transportation Revenue Bonds (Senior Lien) Series 2004A, $237,950,000 of its State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004B and $200,000,000 of its Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C on April 30, 2004, for delivery on May 20, 2004. The Series 2004A bonds financed transportation projects of the State Department of Transportation. The Subordinate and Series 2005C bonds refunded and restructured the NMFA's outstanding Federal Highway Grant Anticipation Revenue Bonds, Series 1998A and Series 2001, and certain maturities of several issues of State Transportation Commission bonds, all of which were issued for the purposes of financing certain public highway projects in the State. The Bonds will be payable from State road fund and the State highway infrastructure fund. The NMFA anticipates issuing approximately $100,000,000 of its State Transportation Revenue Bonds (Senior Lien) and approximately $320,000,000 of its State Transportation Revenue Bonds (Subordinate Lien) during the third quarter of this calendar year.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was created in 1997. The Drinking Water Fund Act creates the New Mexico Drinking Water State Revolving Loan Fund ("DWRLF"). The NMFA administers the DWRLF. The purpose of the Drinking Water Fund Act is to provide local authorities with low-cost financial assistance in the construction and rehabilitation of drinking water facilities necessary to protect drinking water quality and the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act ("SDWA"), which required the Environmental Protection Agency ("EPA") to make capitalization grants to the states to further the health objectives of the SDWA. The State has been awarded approximately $75,500,000 in capitalization grants from the U.S. Environmental Protection Agency through December 31, 2005, approximately $67,200,000 of which is dedicated solely to the Drinking Water Revolving Loan Fund, and the NMFA has provided a total state match of approximately $15,100,000, all of which is deposited in the Drinking Water Revolving Loan Fund. As of June 30, 2006 the NMFA funded 22 loans totaling approximately $39,087,225. The DWRLF has binding commitments to fund five additional loans totaling approximately $17,893,350.

Water and Wastewater Grant Fund Program

The Legislature established the Water and Wastewater Project Grant Fund in 1999. In 2000, the Legislature authorized the NMFA to issue up to $5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated $40,910,000 to the Water and Wastewater Grant Fund Program to fund 76 public water and wastewater systems. The Legislature has appropriated and authorized the use of $15,000,000 to the Water and Wastewater Grant Fund for emergency public purposes. In 2004, the Legislature authorized the NMFA to make grants to benefit 153 projects. The NMFA will fund grants for these projects on a first come, first served basis. As of June 30, 2006, the NMFA had made 144 grants totaling $55,960,367 and had approved an additional 15 projects, totaling $10,308,735. All funds in the Water and Wastewater Grant Fund have been obligated.

Local Government Planning Fund Program

The Water and Wastewater Planning Fund was created by the Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs and to pay the administrative costs of the program. In 2005, the Legislature changed the name of the fund to the Local Government Planning Fund and expanded the scope of the types of grants allowed under the statute to include water conservation plans, long-term master plans and economic development plans. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued $1,000,000 in revenue bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional $1,000,000 to this fund. As of June 30, 2006, the NMFA had made 39 grants totaling $844,890.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue revenue bonds in an amount not to exceed $75,000,000 to finance several State building projects in Santa Fe, namely the National Education Association Building, a new office building with integrated parking at the West Capitol Complex, the Public Employees Retirement Association Building, and the purchase of land adjacent to the District 5 Office of the State Highway and Transportation Department. For a description of the Public Employees Retirement Association financing included in the Series 2006D Bonds, see "APPENDIX H". In 2005, the Legislature authorized an additional $15 million in revenue bonds and expanded the list of projects that would benefit from the bond proceeds to include a central capitol campus parking structure and a state laboratory facility in Bernalillo County.

Bonds issued under the State Building Bonding Fund Program are payable from the State Building Bond Fund, consisting of funds appropriated and transferred to the fund as well as gross receipts tax revenues distributed to the Fund. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of $34,695,000 to finance a portion of the authorized projects. Contemporaneously with the issuance of the Series 2006D Bonds, the NMFA expects to issue its State Building Tax Revenue Bonds, Series 2006B for the purpose of refunding the Outstanding State Office Building Tax Revenue Bonds, Series 2002A. A portion of the proceeds of the Series 2006D Bonds will be used to purchase the State Building Tax Revenue Bonds, Series 2006B. For a description of the refunding of the State Office Building Tax Revenue Bonds, Series 2002A, See APPENDIX H.

The Legislature in 2003 authorized the NMFA to issue bonds in the amount of $5,760,000 for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The Bonds were purchased as securities with moneys on deposit in the public project revolving fund as authorized by State law.

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APPENDIX G

GOVERNMENTAL UNITS AND THEIR OUTSTANDING LOAN BALANCES

The Governmental Units and the maximum reimbursable portions of the loans financed with the Series 2006D Bonds are listed in the following table. The maximum reimbursable portions may not match the amounts actually reimbursed with proceeds of the Series 2006D Bonds. Revenues from these Loans secure all of the Bonds (including but not limited to the Series 2006D Bonds).

Governmental Unit	Original Loan Amount	Agreement Reserve Amount	Pledged Revenues	Closing Date	Loan Maturity Date
City of Eunice	$266,667	$26,667	Gross Receipts Tax	06/02/2006	05/01/2012
Roosevelt County – Milnesand Volunteer Fire Department	$433,334	$73,333	State Fire Protection Funds	05/12/2006	05/01/2013
San Miguel County	$55,800	-	State Law Enforcement Funds	05/19/2006	05/01/2009
Village of Williamsburg	$100,000	-	State Fire Protection Funds	05/26/2006	05/01/2016
City of Santa Rosa	$1,943,951	$138,946	Lodgers' Tax and Gross Receipts Tax	06/16/2006	05/01/2027
City of Santa Rosa	$1,943,947	$137,084	Gross Receipts Tax	05/19/2006	05/01/2027

(1) Certain Agreements have Agreement Reserve Accounts funded with loan proceeds or cash contributions from the applicable Governmental Units in the aggregate amount of $376,030.

Additional projects and securities purchased with the proceeds of the Series 2006D Bonds include the following:

PERA Project	$23,190,000 principal amount of State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition)
Refunding Project	$29,175,000 principal amount of State Building Tax Revenue Bonds, Series 2006B (Refunding Project)

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APPENDIX H

INFORMATION CONCERNING STATE BUILDING BONDS

Authorization for the State Building Bonds

State Building Bonds, including refunding State Building Bonds, are issued under the authority of and pursuant to the laws of the State of New Mexico, including Chapters 166 and 199, Laws of New Mexico 2001, as amended subsequently by the Legislature in its 2005 regular session by Chapter 320, Laws of New Mexico 2005, and all as compiled as Sections 6-21C-1 through 6-21C-11 NMSA 1978 (the "State Building Bonding Act").

Specifically, the Legislature in 2001 authorized the NMFA to issue revenue bonds in an amount not to exceed $75,000,000 to finance several State building projects located in Santa Fe, New Mexico. In 2005, the Legislature authorized an additional $15 million in revenue bonds and expanded the list of projects that would benefit from the bond proceeds to include a central capitol campus parking structure and a state laboratory facility in Bernalillo County. See "APPENDIX F – OTHER NMFA PROGRAMS AND PROJECTS – State Building Bonding Fund Program." In 2002, the NMFA issued $34,695,000 of its State Office Building Tax Revenue Bonds, Series 2002A (the "Series 2002A Bonds") for the purpose of (i) purchasing the National Education Association Building on South Capitol Street in Santa Fe, New Mexico; (ii) paying costs of planning, designing, constructing and furnishing a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, New Mexico; and (iii) purchasing land adjacent to the District Five Office of the New Mexico State Highway and Transportation Department on Cerrillos Road in Santa Fe, New Mexico.

In 2003, the NMFA issued $5,760,000 in bonds for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments (the "Museum Bonds"). The Museum Bonds were authorized pursuant to Chapter 372, Laws of 2003, which amended the State Building Bonding Act to permit the issuance of those bonds.

The State Building Bonding Act also authorizes the NMFA to issue State Building Tax Revenue Bonds for the purpose of providing funding for, among other things, purchasing, renovating, equipping and furnishing of the Public Employees Retirement Building on Paseo de Peralta in Santa Fe, New Mexico (the "PERA Building"), following review by the capitol buildings planning commission (the "Commission") and certification by the Director of the Property Control Division of the General Services Department (the "Director") that proceeds of the State Building Bonds are needed to acquire the PERA Building. The Commission reviewed the PERA Building acquisition in connection with the issuance of the State Office Building Bonds in 2002. On April 17, 2006 the Director certified that in accordance with Section 6-21C-4(A) NMSA 1978, a need exists for the issuance of State Building Tax Revenue Bonds, that the Property Control Division is prepared to proceed with the acquisition and improvement of the PERA Building and that, as required by Section 1(C) of Chapter 320 of Laws of New Mexico 2005, the purchase of the PERA property and PERA Building will be made at a price negotiated with the Retirement Board of the Public Employees Retirement Association that is not less than the fair market value of the property and building comprising the PERA Building. The Retirement Board of the Public Employees Retirement Association and the Property Control Division have entered into a purchase and sale agreement dated May 26, 2006 for the PERA Building at a price of $23,500,000.

Section 15-3B-8 NMSA 1978 authorized the Property Control Division to acquire land by purchase, gift or donation subject to prior approval by the State Board of Finance. The State Board of Finance approved the acquisition of the PERA Building by the Property Control Division on June 22, 2006.

Contemporaneously with the issuance of the Series 2006D Bonds, the NMFA expects to issue its State Building Tax Revenue Bonds, Series 2006A (PERA Building Acquisition) (the "2006A Bonds") for the purpose of purchasing, renovating, equipping and furnishing the PERA Building. The NMFA also expects to issue its State Building Tax Revenue Bonds, Series 2006B (Refunding Project) (the "2006B Bonds") for the purpose of providing funds to refund, defease and redeem on the first optional redemption date, the outstanding Series 2002A Bonds (the "Refunding Project").

Pursuant to the State Building Bonding Act, the NMFA Act and a resolution adopted by the NMFA on July 27, 2006 (the "2006A-B Bond Resolution"), the NMFA intends to purchase (i) the 2006A Bonds with $23,190,000 of the net proceeds of the Series 2006D Bonds, and (ii) the 2006B Bonds with $29,175,000 of the net proceeds of the 2006D Bonds, and to pledge the 2006A Bonds and the 2006B Bonds as Security under the Indenture.

The Refunding Project will be undertaken to accomplish the restructuring of debt service on outstanding State Building Bonds secured by the State Building Bonding Fund to enable the financing of additional projects authorized by law to be financed by the NMFA through the issuance of additional State Building Bonds. The Refunding Project specifically includes the refunding of the Series 2002A Bonds maturing on the following dates in the following principal amounts (the "Refunded Obligations"):

June 1	Principal to be Refunded	CUSIP Number
2007	$1,380,000	64711MNW3
2008	1,440,000	64711MNX1
2009	1,505,000	64711MNY8
2010	1,575,000	64711MNZ6
2011	1,655,000	64711MPA9
2012	1,725,000	64711MPB7
2013	1,800,000	64711MPC5
2014	1,875,000	64711MPD3
2015	1,960,000	64711MPE1
2016	2,050,000	64711MPF8
2017	2,150,000	64711MPG6
2018	2,255,000	64711MPH4
2019	2,370,000	64711MPJ0
2020	2,490,000	64711MPK7
2021	2,620,000	64711MPL5

An irrevocable escrow account to defease and refund the Refunded Obligations to their call date of June 1, 2011, will be established with the Bank of Albuquerque, N.A., Albuquerque, New Mexico, as Escrow Agent. Funds deposited in the Escrow Account (except to the extent maintained in cash) are invested in direct obligations of the United States of America, which do not contain provisions permitting the redemption thereof at the option of the issuer; and the principal of and interest on such obligations when due, without reinvestment thereof, will provide moneys which are sufficient to pay all outstanding Refunded Obligations as to principal and interest as they come due on and until their call date of June 1, 2011.

Causey Demgen & Moore Inc., Denver, Colorado, Certified Public Accountants & Consultants will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them by the Underwriters relating to the adequacy of the maturing principal amounts of the securities held in the Escrow Account by the Escrow Agent and interest to be earned thereon to pay all the principal of, premium, if any, and interest on the Refunded Obligations when due.

Based on the mathematical computations of the accountants, the Escrow Account will be funded in amounts sufficient such that the Series 2002A Bonds to be refunded with the proceeds of the 2006B Bonds will be deemed to have been paid and will no longer be outstanding as of the date of the establishment of the Escrow Account.

Security for the 2006A Bonds and the 2006B Bonds

The 2006A Bonds and the 2006B Bonds are special limited obligations of the NMFA payable solely from "Pledged Revenues" consisting of: $500,000 of gross receipts tax revenue of the State ("State Gross Receipts Tax") distributed monthly to the State Office Building Fund created within the NMFA and other revenues received by the NMFA from the State and authorized by the Legislature to be pledged to the payment of the 2006A Bonds and the 2006B Bonds. After all required distributions have been made to municipalities pursuant to Section 7-1-6.4 NMSA

1978, the monthly distribution is made from the revenues attributable to the gross receipts tax (the "Net Receipts") imposed in the State pursuant to the Gross Receipts and Compensating Tax Act, Section 7-9-1 through 7-9-98 NMSA 1978, as amended and supplemented (the "Gross Receipts and Compensating Tax Act"), contemporaneously with other distributions of Net Receipts for the payment of Debt Service on outstanding bonds or to a fund dedicated for that purpose, and prior to any other distributions of Net Receipts to the State general fund or other purposes.

On the last day of January and July of each year, the NMFA will estimate the amount needed to make debt service and other payments during the twelve (12) months from the State Office Building Bonding Fund on the 2006A Bonds, the 2006B Bonds, the Museum Bonds and any additional parity bonds issued pursuant to the State Building Bonding Act plus the amount that may be needed for any required reserves. Other payments to be made from the State Office Building Bonding Fund include, at the end of each fiscal year, a payment to the NMFA general operating account from the State Office Building Bonding Fund of an amount equal to fifteen-hundredths of one percent (.15%) of the then Outstanding amount of the 2006A Bonds, the 2006B Bonds and the Museum Bonds as an administrative expense of the NMFA in connection with the administration of the funds and obligations related to the 2006A Bonds, the 2006B Bonds and the Museum Bonds. The NMFA will transfer, after the last day of January and July in each year, to the general fund of the State any balance in the State Office Building Bonding Fund above the estimated amounts.

Pledged Revenues also consist of other revenues received by the NMFA from the State and authorized by the Legislature of the State to be pledged to the payment of the 2006A Bonds, the 2006B Bonds and the Museum Bonds. No such further revenues have been pledged or should the owners of the 2006A Bonds or the 2006B Bonds expect that any such revenues will be pledged in the future.

Pursuant to the State Building Bonding Act, the State pledges that any law authorizing the distribution of taxes or other revenues to the State Office Building Bond Fund or authorizing expenditures from the State Office Building Bond Fund shall not be amended or repealed or otherwise modified so as to impair the 2006A Bonds, the 2006B Bonds and the Museum Bonds or any additional parity bonds.

State Gross Receipts Taxes

Imposition of State Gross Receipts Tax

The Gross Receipts and Compensating Tax Act authorizes the State to impose the State Gross Receipts Tax which is levied by the State for the privilege of doing business in the State of New Mexico and is collected by the New Mexico Taxation and Revenue Department (the "Department"). The State presently levies a gross receipts tax of five percent (5.00%). Until January 1, 2005, within any municipality imposing a municipal gross receipts tax of at least one half of one percent (0.50%), the taxpayer received a maximum of one half of one percent (0.50%) credit against the State Gross Receipts Tax. The one half of one percent (0.50%) credit was repealed effective January 1, 2005 pursuant to Chapter 116, Session Laws 2004. Of the 5.00 cents collected per dollar of taxable gross receipts reported for a particular municipality, 1.225 cents is distributed to the municipality by the State monthly, based on the prior month's filings (the "State-Shared Gross Receipts Tax Revenues"). Beginning January 1, 2005, the State collects a five percent (5.0%) tax within all municipalities. See "Manner of Collection and Distribution of State Gross Receipts Tax" under this caption.

In fiscal year 2006, the State Gross Receipts Tax was projected to be approximately thirty percent (30%)[1] of the total recurring general fund revenues and is the single largest revenue component of the general fund.

[1] Estimated by the New Mexico Consensus Revenue Estimating Group in January, 2006.

Taxed Activities

For the privilege of engaging in business in the State of New Mexico, the State Gross Receipts Tax is imposed upon any person engaging in business in the State. "Gross Receipts" is defined in the Gross Receipts and Compensating Tax Act as the total amount of money or value of other consideration received from selling property in New Mexico (including tangible personal property handled on consignment in the State), from leasing property employed in the State, from performing services in the State and from selling services outside New Mexico, the product of which is initially used in New Mexico. The definition excludes cash discounts allowed and taken, the State Gross Receipts Tax payable on transactions for the reporting period and any county sales tax, county fire protection excise tax, county and municipal gross receipts taxes, any type of time price differential and certain gross receipts or sales taxes imposed by an Indian tribe or pueblo. Revenues derived by the State from the State Gross Receipts Tax are a major source of revenue for the State general fund and for municipal governments.

Some activities and industries are exempt from the State Gross Receipts Tax, many by virtue of their taxation under other laws. Exemptions include but are not limited to certain receipts of governmental agencies and certain organizations, receipts from the sale of vehicles, occasional sales of property or services, wages, certain agricultural products, dividends and interest and receipts from the sale of or leasing of gas, natural oil or mineral interests. Various deductions are allowed including, but not limited to, receipts from various types of sales or leases of tangible personal property or services, receipts from sales to governmental agencies or certain organizations, receipts from processing certain agricultural products, receipts from certain publication sales, and certain receipts from interstate commerce transactions and, effective January 1, 2005, receipts from food as defined for federal food stamp program purposes and receipts of licensed medical care providers from Medicare Part C and managed health plans that by contract do not reimburse the providers for gross receipts tax. The legislation creating the deductions for receipts from sales of food and certain medical services also provides for distributions from the State general fund to local governments to reimburse them for revenues lost as a result of those deductions. There are over fifty specified exemptions and deductions from gross receipts taxation; nevertheless, the general presumption is that all receipts of a person engaging in business in the State of New Mexico are subject to the State Gross Receipts Tax.

Manner of Collection and Distribution of State Gross Receipts Tax

Businesses must make their payments of State Gross Receipts Tax on or before the 25th of each month for taxable events in the prior month. Collection of the State Gross Receipts Tax is administered by the Revenue Division of the Taxation and Revenue Department of the State (the "Revenue Division"), pursuant to Section 7-1-6 NMSA 1978. Collections are first deposited into a suspense fund for the purpose of making disbursements for refunds, among other items. On the last day of each month, the balance of the suspense fund is transferred to the State general fund, less the following disbursements to the municipalities in the State. The Revenue Division remits monthly to municipalities an amount equal to the product of the quotient of one and two-hundred-twenty-five-thousandths percent (1.225%) divided by the tax rate of five percent (5.00%) times the net receipts (total amount paid by taxpayers less any refunds disbursed) attributable to the gross receipts of businesses located in the municipality and other designated areas (the "State-Shared Gross Receipts Tax"). The distribution from Net Receipts of the Pledged Revenues of $500,000 each month to the State Office Building Bonding Fund will not occur until after the required distribution of State-Shared Gross Receipts Tax to the municipalities and prior to any other distribution to the State general fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2006A BONDS AND THE 2006B BONDS-Pledged Revenues."

Remedies for Delinquent Taxes

The Revenue Division may assess State Gross Receipts Taxes to a taxpayer who has not paid the taxes due to the State. If any taxpayer to whom State Gross Receipts Taxes have been assessed or upon whom demand for payment has been made does not make payment (or protest the assessment or demand for payment), or provide security for payment within 30 days after the date of assessment or demand for payment, the taxpayer becomes a delinquent taxpayer. Such taxpayer remains delinquent until payment of all taxes due, including interest and penalties, or until security is furnished for the payment thereof. The Revenue Division may, under certain circumstances, enter into an agreement with a delinquent taxpayer to permit monthly installment payments for a period of not more than 36 months. Interest is due on any delinquent taxes from the first day following the day on which it is due at the rate of one and one quarter percent (1.25%) per month until paid, without regard to any installment agreement. However, if the State Gross Receipts Tax is paid within ten days after demand is made, no interest shall be imposed for the period after the date of the demand.

The Revenue Division may levy upon all property or rights to property of a delinquent taxpayer and sell the same in order to collect the delinquent tax. The amount of delinquent State Gross Receipts Taxes is also a lien in favor of the State upon all property and rights to property of the delinquent taxpayer, which lien may be foreclosed as provided by State statutes.

Historical Total Gross Receipts and Taxable Gross Receipts Reported for the State

Fiscal Year Ended June 30	Total Gross Receipts Reported in the State of New Mexico	Total Taxable Gross Receipts Reported in the State of New Mexico
1997	$52,295,979,760	$27,713,591,200
1998	53,313,932,544	29,186,629,537
1999	52,149,815,112	29,903,586,093
2000	56,317,340,905	31,445,128,866
2001	63,408,226,478	33,656,332,627
2002	57,943,902,709	33,048,449,956
2003	63,572,454,899	35,935,806,959
2004	70,477,791,653	38,401,815,634
2005	78,771,700,292	40,277,536,914

Source: State of New Mexico Taxation and Revenue Department

State of New Mexico Historical State Taxable Gross Receipts By Economic Activity

	FY 2001	FY 2002	FY 2003(1)	FY 2004	FY 2005
Agriculture	$64,378,871	$68,039,342	$63,529,829	$71,616,022	$70,001,584
Mining	1,167,871,177	1,073,132,736	1,105,279,246	1,145,546,598	1,381,243,485
Construction	4,284,579,275	4,458,278,050	4,319,274,594	4,817,856,381	5,281,859,118
Manufacturing	911,302,677	806,982,063	844,128,848	864,008,690	958,278,952
Transportation, Communications and Utilities	2,549,809,421	2,321,958,186	2,574,531,414	2,681,434,789	2,860,068,194
Wholesale Trade	1,649,247,226	1,658,297,169	1,804,642,164	2,082,292,396	2,240,754,848
Retail Trade	12,357,575,309	11,632,537,074	11,385,085,059	12,118,087,701	11,724,890,396
Finance, Insurance & Real Estate	768,586,911	731,264,513	740,339,093	789,697,283	829,676,702
Services	9,724,046,782	10,564,118,458	7,976,569,885	8,379,596,916	8,587,635,364
Other(2)	178,934,978	179,522,771	5,122,426,827	5,451,678,860	6,343,119,271
Total(3)	$33,656,332,627	$33,494,130,362	$35,935,806,959	$38,401,815,634	$40,277,527,914

(1) Prior to 2002, the New Mexico Department of Taxation and Revenue employed the Standard Industrial Classification ("SIC") system for industry specific data covered in its tax revenue analysis. In 2002, the New Mexico Department of Taxation and Revenue adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). This new system was first employed by the New Mexico Department of Taxation and Revenue with the third quarter of 2002 data. Consequently, the SIC fiscal years 2001 and 2002 tax revenue industry data is not comparable with the tax revenue industry data for the NAICS fiscal years 2003, 2004 and 2005.

(2) The State of New Mexico Taxation and Revenue Department expects to revise its reports to show updated unclassifiable data, which is anticipated to include fewer businesses in the unclassifiable category.

(3) Information relating to some industries has been withheld from the New Mexico Department of Taxation and Revenue data to avoid disclosing confidential information or to avoid disclosing individual companies. However, data that is not disclosed for individual industries is included in the totals. Therefore, the individual industries may not sum to the totals.

Source: State of New Mexico Taxation and Revenue Department

State of New Mexico Historical State Gross Receipts Tax Revenue Distributions

Fiscal Year Ended June 30	Distributions of State-Shared Gross Receipts Tax to Municipalities	Distributions of State Gross Receipts Tax to the State General Fund	Total State Gross Receipts Tax Revenues
1997	$256,620,547	$1,035,245,661	$1,291,866,208
1998	270,354,028	1,085,543,479	1,355,897,507
1999	276,324,639	1,120,709,756	1,397,034,395
2000	292,296,709	1,142,364,151	1,434,660,860
2001	305,494,878	1,253,424,273	1,558,919,151
2002	311,461,947	1,273,813,667	1,585,275,614
2003	327,098,219	1,340,369,004	1,667,467,223
2004	358,464,905	1,418,095,470	1,776,560,375
2005	364,740,779	1,512,483,127	1,877,223,906

Source: State of New Mexico Taxation and Revenue Department

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Monthly State General Fund Deposits from State Gross Receipts Taxes

A five year history, based on the State's fiscal year, of monthly deposits of State Gross Receipts Taxes to the State General Fund is shown below:

Month	2001	2002	2003	2004	2005
July	$108,803,014	$107,335,916	$117,886,199	$124,144,913	$110,687,000
August	98,074,051	132,510,053	109,749,291	118,915,066	126,973,000
September	101,472,165	88,542,274	99,771,439	111,319,085	125,621,000
October	107,548,734	101,817,259	115,596,584	115,320,866	124,442,000
November	101,395,822	107,148,665	98,732,485	116,502,314	123,748,000
December	96,239,250	102,897,430	129,754,990	106,961,784	154,649,000
January	105,804,684	125,014,802	131,704,045	127,280,227	108,520,000
February	107,014,621	103,199,896	99,247,113	109,269,981	119,719,000
March	114,625,842	87,110,048	111,188,922	103,354,738	126,771,000
April	100,961,782	104,161,727	92,042,817	125,764,738	127,558,000
May	102,266,683	107,914,186	112,717,510	116,724,024	125,857,000
June	109,217,625	106,628,972	118,077,480	134,026,991	137,939,000
Total Fiscal Year Deposits	$1,253,424,273	$1,274,281,228	$1,336,468,875	$1,409,584,727	$1,512,484,000

Source: New Mexico State Board of Finance

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Historical Combined State General Fund Recurring Revenues

Fiscal Year Ended June 30	Total Combined General Fund Recurring Revenues	Gross Receipts Taxes as a Percentage of Total General Fund Recurring Revenues
1997	$2,963,941,017	34.9%
1998	3,157,994,952	34.4%
1999	3,122,932,386	35.9%
2000	3,373,387,634	33.9%
2001	3,990,652,805	31.4%
2002	3,811,824,052	33.4%
2003	3,891,063,996	34.3%
2004	4,282,994,445	32.9%
2005	4,906,151,000	30.8%

Source: State of New Mexico Department of Finance and Administration

Additional Bonds

Before any additional bonds payable from and constituting a lien upon the pledged revenues on a parity with the lien of the 2006A Bonds, the 2006B Bonds and the Museum Bonds may be issued, it must be determined that:

(1) The NMFA is then current in the accumulation of all amounts which are required to have then been accumulated in the Debt Service Account, as required by the Bond Resolution; and

(2) The annual Net Receipts for the Fiscal Year immediately preceding the date of the resolution authorizing the issuance of any Parity Bonds shall have been sufficient to pay an amount representing at least five hundred percent (500%) of the maximum annual principal and interest coming due in any subsequent Fiscal Year on (a) the outstanding Parity Bonds payable from and constituting a lien upon the Pledged Revenues, and (b) the additional Parity Bonds proposed to be issued (excluding any required future accumulation of reserves therefore).

A written certification of the Chief Executive Officer of the NMFA that the Net Receipts are sufficient to pay the required amounts set out above must be obtained prior to the issuance of additional Parity Bonds and is to conclusively determine the right of the NMFA to issue additional Parity Bonds.

Annual Debt Service Requirements and Coverage

The following schedule shows the total debt service payable for the 2006A Bonds, the 2006B Bonds and the Museum Bonds for each fiscal year and the debt service coverage based on Pledged Revenues of $6,000,000 per fiscal year.

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Fiscal Year	Debt Service on 2006A Bonds[(1)]	Debt Service on 2006B Bonds[(2)]	Debt Service on Museum Bonds	Total Debt Service	Pledged Revenues	Pledged Revenues Payment Coverage
2007	$ 851,754[(3)]	$4,636,224[(3)]	$454,252	$5,942,230	$6,000,000	1.01x
2008	1,222,750	1,832,400	454,890	3,510,040	6,000,000	1.71x
2009	1,224,775	1,832,538	455,545	3,512,857	6,000,000	1.71x
2010	1,226,588	1,831,613	456,217	3,514,417	6,000,000	1.71x
2011	1,223,188	1,834,625	456,911	3,514,723	6,000,000	1.71x
2012	1,224,788	1,836,363	457,629	3,518,779	6,000,000	1.71x
2013	1,226,175	1,836,825	458,370	3,521,370	6,000,000	1.70x
2014	1,226,675	1,835,575	459,140	3,521,390	6,000,000	1.70x
2015	1,226,925	1,837,575	459,938	3,524,438	6,000,000	1.70x
2016	1,226,925	1,837,575	460,768	3,525,268	6,000,000	1.70x
2017	1,226,675	1,840,575	461,631	3,528,881	6,000,000	1.70x
2018	1,226,175	1,841,325	462,529	3,530,029	6,000,000	1.70x
2019	1,225,425	1,844,825	463,468	3,533,718	6,000,000	1.70x
2020	1,224,425	1,845,825	464,447	3,534,697	6,000,000	1.70x
2021	1,228,175	1,844,325	465,470	3,537,970	6,000,000	1.70x
2022	1,231,425	1,845,325	466,540	3,543,290	6,000,000	1.69x
2023	1,229,175	1,848,575	467,659	3,545,409	6,000,000	1.69x
2024	1,696,675	1,848,825	-	3,545,500	6,000,000	1.69x
2025	1,700,425	1,851,075	-	3,551,500	6,000,000	1.69x
2026	1,697,425	1,855,075	-	3,552,500	6,000,000	1.69x
2027	1,702,925	1,855,575	-	3,558,500	6,000,000	1.69x
2028	1,701,425	1,857,575	-	3,559,000	6,000,000	1.69x
2029	1,702,000	1,858,500	-	3,560,500	6,000,000	1.69x
2030	1,702,000	1,863,250	-	3,565,250	6,000,000	1.68x
2031	1,705,000	1,863,750	-	3,568,750	6,000,000	1.68x
2032	3,575,750	-	-	3,575,750	6,000,000	1.68x
2033	3,580,750	-	-	3,580,750	6,000,000	1.68x
2034	3,583,500	-	-	3,583,500	6,000,000	1.67x
2035	3,588,750	-	-	3,588,750	6,000,000	1.67x
2036	3,591,000	-	-	3,591,000	6,000,000	1.67x

(1) Payable on June 1 and December 1, commencing December 1, 2006.
(2) Payable on June 1 and December 1, commencing December 1, 2006.
(3) Net of accrued interest.

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Ratio of Net Receipts to 2006A Bond, 2006B Bond and Museum Bond Debt Service

The following schedule shows the ratio of Net Receipts to the annual debt service requirements on the 2006A Bonds, the 2006B Bonds and the Museum Bonds. The Net Receipts are total amount of State Gross Receipts received by the State after all required distributions are made to municipalities pursuant to Section 7-1-6-4 NMSA 1978. The Net Receipts, after deposit of the Pledged Revenues into the State Office Building Bonding Fund and any required deposits for other bonds, if any, are deposited into the State General Fund or used for other purposes. **The Net Receipts are not pledged to payment of the 2006A Bonds, the 2006B Bonds or the Museum Bonds**; however, the Pledged Revenues are distributed from the Net Receipts prior to transfer of the Net Receipts to the State General Fund and all Net Receipts are available to make the required distribution of Pledged Revenues to the State Office Building Bonding Fund contemporaneously with other distributions of Net Receipts for payment of debt service on outstanding bonds or to a fund dedicated for that purpose, if any are authorized in the future by the State Legislature.

Ratio of Net Receipts to 2006A Bond, 2006B Bond and Museum Bond Debt Service

Fiscal Year Ended June 30	Fiscal Year Payment Requirements	Annual Net Receipts After Distributions to Municipalities[1]	Ratio of Net Receipts to 2006A Bond, 2006B Bond and Museum Bond Debt Service
2007	$5,942,230	$1,512,483,127	254.53
2008	3,510,040	1,512,483,127	430.90
2009	3,512,857	1,512,483,127	430.56
2010	3,514,417	1,512,483,127	430.37
2011	3,514,723	1,512,483,127	430.33
2012	3,518,779	1,512,483,127	429.83
2013	3,521,370	1,512,483,127	429.52
2014	3,521,390	1,512,483,127	429.51
2015	3,524,438	1,512,483,127	429.14
2016	3,525,268	1,512,483,127	429.04
2017	3,528,881	1,512,483,127	428.60
2018	3,530,029	1,512,483,127	428.46
2019	3,533,718	1,512,483,127	428.01
2020	3,534,697	1,512,483,127	427.90
2021	3,537,970	1,512,483,127	427.50
2022	3,543,290	1,512,483,127	426.86
2023	3,545,409	1,512,483,127	426.60
2024	3,545,500	1,512,483,127	426.59
2025	3,551,500	1,512,483,127	425.87
2026	3,552,500	1,512,483,127	425.75
2027	3,558,500	1,512,483,127	425.03
2028	3,559,000	1,512,483,127	424.97
2029	3,560,500	1,512,483,127	424.80
2030	3,565,250	1,512,483,127	424.23
2031	3,568,750	1,512,483,127	423.81
2032	3,575,750	1,512,483,127	422.98
2033	3,580,750	1,512,483,127	422.39
2034	3,583,500	1,512,483,127	422.07
2035	3,588,750	1,512,483,127	421.45
2036	3,591,000	1,512,483,127	421.19

(1) Based on fiscal year 2005 State Gross Receipts Taxes after municipal distributions and assuming no growth.

APPENDIX I

FORM OF SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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NEW MEXICO FINANCE AUTHORITY • SENIOR LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS SERIES 2006D

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