NEW ISSUE – BOOK-ENTRY ONLY
DAC Bond®

Ratings: *Moody's: 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 2005C 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 2005D 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 2005C-D 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 2005C-D Bonds. See "TAX MATTERS" herein.

$50,395,000
NEW MEXICO FINANCE AUTHORITY
Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds Series 2005C

$8,660,000
NEW MEXICO FINANCE AUTHORITY
Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds Series 2005D

Dated: Delivery Date

Due: June 15, as shown on inside cover

The New Mexico Finance Authority's Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C (the "Series 2005C Bonds") and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D (the "Series 2005D Bonds," and collectively with the Series 2005C Bonds, the "Series 2005C-D 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 2005C-D 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 2005C-D Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2005C-D Bonds will be made in book-entry form only, and beneficial owners of the Series 2005C-D 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 2005C-D Bonds.

The Series 2005C-D Bonds will be issued under and secured by a Subordinated General Indenture of Trust and Pledge, as supplemented by a First Supplemental Indenture of Trust (collectively, the "Indenture"), each dated as of March 1, 2005, between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as Trustee. Interest on the Series 2005C-D Bonds is payable on June 15 and December 15 of each year, commencing on June 15, 2005. Principal of the Series 2005C-D Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedules presented inside the front cover.

SEE MATURITY SCHEDULES
INSIDE FRONT COVER

The Series 2005C Bonds are subject to optional redemption prior to maturity. **The Series 2005D Bonds are not subject to redemption.**

Proceeds of the Series 2005C-D Bonds will be used by the NMFA to purchase, contemporaneously with the issuance of the Series 2005C-D Bonds, its Court Facilities Fee Refunding Revenue Bonds and to pay the costs of issuance of the Series 2005C-D Bonds. The principal of and premium, if any, and interest on the Series 2005C-D Bonds are payable solely from and secured solely by the Trust Estate, which includes the remainder of the NMFA Portion of the Governmental Gross Receipts Tax and other amounts transferred to the Trustee after satisfaction of the NMFA's obligations under a General Indenture of Trust and Pledge, dated as of June 1, 1995, between the NMFA and Bank of Albuquerque, N.A., as amended and supplemented; certain amounts payable with respect to its Court Facilities Fee Refunding Revenue Bonds, Series 2005-1 and Series 2005-2 and the resolution authorizing them; and certain moneys in funds and accounts. The NMFA may issue additional bonds and other obligations pursuant to the Indenture with a lien on the Trust Estate on a parity with the lien of the Series 2005C-D Bonds. The NMFA has previously issued and expects to issue in the future bonds with a lien on the NMFA Portion of the Governmental Gross Receipts Tax senior to the lien of the Series 2005C-D Bonds.

The Series 2005C-D Bonds are special limited obligations of the NMFA, payable solely from the Trust Estate. The Series 2005C-D 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. No provision of the Series 2005C-D 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 Series 2005C-D Bonds do not constitute or give rise to any 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.

Payment of the principal of and interest on each series of the Series 2005C-D 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 2005C-D Bonds. See "BOND INSURANCE" herein.

Ambac

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 2005C-D 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 2005C-D Bonds. It is expected that a single certificate for each maturity of each series of the Series 2005C-D Bonds will be delivered to DTC or its agent on or about April 5, 2005. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2005C-D Bonds.

Piper Jaffray & Co.

RBC Dain Rauscher

Banc of America Securities LLC

Dated: March 2, 2005

Maturity Schedules

$50,395,000
New Mexico Finance Authority
Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds
Series 2005C

Year (June 15)	Principal Amount	Interest Rate	Yield	CUSIP Number
2009	$1,170,000	5.000%	3.08%	64711MA49
2009	195,000	3.375	3.08	64711MC54
2010	1,840,000	5.000	3.25	64711MA56
2010	240,000	3.500	3.25	64711MC62
2011	1,950,000	5.000	3.45	64711MA64
2011	230,000	3.625	3.45	64711MC70
2012	2,285,000	5.000	3.59	64711MA72
2013	2,280,000	5.000	3.73	64711MA80
2013	120,000	3.875	3.73	64711MC88
2014	1,805,000	5.000	3.83	64711MA98
2014	720,000	4.500	3.83	64711MC96
2015	2,360,000	5.000	3.93	64711MB22
2015	290,000	3.625	3.93	64711MD20
2016	2,775,000	5.000	4.00*	64711MB30
2017	2,775,000	5.000	4.07*	64711MB48
2017	140,000	4.000	4.10	64711MD38
2018	3,015,000	5.000	4.13*	64711MB55
2018	45,000	4.000	4.16	64711MD46
2019	3,130,000	5.000	4.18*	64711MB63
2019	85,000	4.125	4.22	64711MD53
2020	3,375,000	5.000	4.24*	64711MB71
2021	3,540,000	5.000	4.28*	64711MB89
2022	3,125,000	5.000	4.30*	64711MB97
2022	600,000	4.125	4.33	64711MD61
2023	3,900,000	5.000	4.33*	64711MC21
2024	4,100,000	5.000	4.37*	64711MC39
2025	3,305,000	4.250	4.50	64711MD79
2025	1,000,000	5.000	4.41*	64711MC47

* Yield to first optional redemption date.

$8,660,000
New Mexico Finance Authority
Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds
Series 2005D

Year (June 15)	Principal Amount	Interest Rate	Price	CUSIP Number
2005	$2,545,000	3.050%	100.00%	64711MD87
2006	1,760,000	3.760	100.00	64711MD95
2007	1,830,000	4.010	100.00	64711ME29
2008	1,905,000	4.240	100.00	64711ME37
2009	620,000	4.380	100.00	64711ME45

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 2005C-D 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, the Administrative Office of the Courts of the State of New Mexico, the Series 2005C-D 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, the State of New Mexico court system, the Series 2005C-D Bond Insurer or others since the date hereof.

THE PRICES AT WHICH THE SERIES 2005C-D 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 2005C-D BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005C-D 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 2005C-D 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 2005C-D Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2005C-D 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 2005C-D 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
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Members

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Joanna Prukop, Secretary
Craig Reeves, Treasurer
Gary Bland
John Carey
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Ron Curry
Edward Garcia
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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

Trustee, Registrar and Paying Agent
Bank of Albuquerque, N.A.
Albuquerque, New Mexico

TABLE OF CONTENTS

OFFICIAL STATEMENT

$50,395,000	**$8,660,000**
NEW MEXICO FINANCE AUTHORITY	**NEW MEXICO FINANCE AUTHORITY**
Subordinate Lien Public Project	**Taxable Subordinate Lien Public Project**
Revolving Fund Refunding Revenue Bonds	**Revolving Fund Refunding Revenue Bonds**
Series 2005C	**Series 2005D**

INTRODUCTION

This Official Statement, which includes the cover page and appendices, provides information in connection with the offer and sale of the Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C (the "Series 2005C Bonds") and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D ("Series 2005D Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2005C Bonds and the Series 2005D Bonds are collectively referred to in this Official Statement as the "Series 2005C-D Bonds." The Series 2005C-D Bonds, together with any additional bonds the NMFA may issue on a parity with the Series 2005C-D Bonds, 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 Subordinated General Indenture of Trust and Pledge (the "General Indenture"), as supplemented by a First Supplemental Indenture of Trust (the "First Supplemental Indenture"), each dated as of March 1, 2005, between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as trustee (the "Trustee"), and are presented under the caption "Definitions" in Appendix B — "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." The General Indenture and the First Supplemental Indenture 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 2005C-D 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 financial statements included as Appendix A.

Purposes of the Series 2005C-D Bonds; The Metro Court Bonds; Other Governmental Units

Proceeds from the sale of the Series 2005C-D Bonds will be used by the NMFA to purchase, contemporaneously with the issuance of the Series 2005C-D Bonds, $50,395,000 aggregate principal amount of its Court Facilities Fee Refunding Revenue Bonds, Series 2005-1 and $8,660,000 aggregate principal amount of its Court Facilities Fee Refunding Revenue Bonds, Series 2005-2 (collectively, the "Metro Court Bonds"). The Metro Court Bonds will provide funds for the refunding of bonds issued by the NMFA to finance the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court. For certain information concerning the Metro Court Bonds, see "THE PLAN OF FINANCING – Governmental Unit and Project" and Appendix D – "INFORMATION CONCERNING THE METRO COURT BONDS." The Metro Court

Bonds, together with loan agreements and securities relating to parity bonds to be issued under the Indenture, are referred to in this Official Statement as the "Agreements." The NMFA, as issuer of the Metro Court Bonds, and other governmental units entering into or issuing Agreements are referred to collectively as "Governmental Units."

Proceeds of the Series 2005C-D Bonds will also be used to provide funding for the payment of costs of issuance of the Series 2005C-D Bonds.

Authority for Issuance

The Series 2005C-D 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 2005C-D Bonds

Payments

The Series 2005C-D Bonds will be dated as of the Delivery Date. Interest on the Series 2005C-D Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2005. The Series 2005C-D Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity, in the case of the Series 2005C Bonds) and will bear interest at the rates shown on the inside front cover.

Denominations

The Series 2005C-D 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 purchasers of the Series 2005C-D Bonds will not receive physical delivery of bond certificates except as more fully described herein. Payments of principal of and interest on the Series 2005C-D 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 2005C-D Bonds, all as more fully described in Appendix F. In reading this Official Statement, it should be understood that while the Series 2005C-D 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 2005C-D Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described more fully below, 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 of the Series 2005C Bonds

The Series 2005C Bonds are subject to redemption prior to maturity. See "THE SERIES 2005C-D BONDS – Redemption of the Series 2005C Bonds." The Series 2005D Bonds are not subject to redemption prior to maturity.

Security and Sources of Payment for the Series 2005C-D Bonds

Special Limited Obligations

The Series 2005C-D Bonds are special limited obligations of the NMFA secured by and payable solely from the special revenues and funds of the NMFA pledged under the Indenture, including –

- certain Governmental Gross Receipts Tax revenues and moneys from the repayment to the NMFA of certain loans pledged to the payment of bonds with a lien senior to the Series 2005C-D Bonds' lien on such revenues and moneys deposited in the Revenue Fund;

- moneys from the repayment by governmental borrowers to the NMFA of loans made or securities purchased from moneys in the Public Project Revolving Fund and pledged as "Additional Pledged Loans" under the Indenture;

- moneys from the repayment by governmental borrowers of loans made or securities issued to finance a project under the Indenture;

- any additional revenues received by the NMFA and designated as part of the special revenues and funds pledged under the Indenture pursuant to a Supplemental Indenture or Pledge Notification; and

- certain funds and accounts created and maintained pursuant to the Indenture.

The Series 2005C-D 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 2005C-D 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, the NMFA or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS."

The revenues and moneys described in the first three bullet points above, after being applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Indenture, may be released to the NMFA on June 16 of each year to be used for any lawful purpose. However, only amounts not required to make payments of all debt service requirements on all Bonds and other parity obligations in the then current Bond Fund Year, after giving credit for amounts in the Debt Service Reserve Fund and the Agreement Reserve Fund established under the Indenture, may be released from the lien of the Indenture. Those moneys described in the first bullet point are paid to the Trustee immediately upon their release from the Senior Indenture on June 1 of each year and are available in the Revenue Fund for the purposes described above only until June 16 of each year. All amounts described in the second and third bullet points are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA (although they also may be released on June 16 of each year to the extent they are not required for debt service in the then current Bond Fund Year). For a more complete description of these deposits and transfers, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Flow of Funds" and "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Reserve Fund

Payment of the Series 2005C-D Bonds also will be secured by amounts on deposit in two separate accounts in the Debt Service Reserve Fund, each of which will be funded upon the issuance of the Series 2005C-D Bonds in an amount equal to its respective Debt Service Reserve Requirement with a surety bond provided by Ambac Assurance Corporation, as described in "SECURITY AND SOURCES OF PAYMENT FOR THE 2005C-D BONDS – Debt Service Reserve Fund."

Additional Bonds

Once issued, the Series 2005C-D Bonds will be the only Bonds issued pursuant to the Indenture. However, 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 on a parity with respect to the Trust Estate (other than amounts on deposit in Agreement Reserve Accounts or Accounts in the Debt Service Reserve Fund, if any) with the Series 2005C-D 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 2005C-D Bonds (other than any amounts on deposit in Agreement Reserve Accounts or Debt Service Reserve Accounts). For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Additional Bonds." Except as provided in the Senior Indenture, the NMFA may not issue bonds or other indebtedness payable with a priority senior to the pledge of the Trust Estate for payment of the Bonds without the prior written consent of 100% of the owners of the Outstanding Bonds and other obligations secured by the Indenture. The NMFA has issued, and may in the future issue, indebtedness having a lien on the PPRF Revenues senior to the lien of the Series 2005C-D Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Outstanding Senior Bonds."

Senior Bonds

The lien of the Indenture on PPRF Revenues is junior and subordinate to the lien on those revenues of the NMFA's General Indenture of Trust and Pledge dated as of June 1, 1995 (the "Senior Indenture"), and pursuant to the Senior Indenture the NMFA has previously and may from time to time in the future issue bonds or other obligations with a lien on those revenues senior to the lien of the Indenture. Those bonds are not secured by or payable from any portion of the Trust Estate other than the PPRF Revenues. For a description of currently outstanding bonds that were issued pursuant to the Senior Indenture, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Outstanding Senior Bonds."

Bond Insurance

Payment of scheduled principal of and interest on the Series 2005C-D Bonds will be insured pursuant to a financial guaranty insurance policy (the "Series 2005C-D Bond Insurance Policy") to be issued by Ambac Assurance Corporation (the "Series 2005C-D Bond Insurer") concurrently with the delivery of the Series 2005C-D Bonds. See "BOND INSURANCE."

Continuing Disclosure

The NMFA has undertaken for the benefit of the Bond Owners that, while the Series 2005C-D Bonds remain outstanding, the NMFA will provide certain annual financial information with respect to the NMFA, the Pledged Court Facilities Revenues pledged to the payment of the Metro Court Bonds and the Subordinate Lien PPRF Revenues 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 under "CONTINUING DISCLOSURE UNDERTAKING."

In September 2004, the NMFA discovered that for fiscal years 2001, 2002 and 2003, certain required information 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. 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 2005C 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 2005D 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 2005C-D 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 2005C-D 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. For a discussion of such opinion and certain other tax consequences incident to the ownership of the Series 2005C-D Bonds, see "TAX MATTERS."

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2005C-D Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in substantially the form included in Appendix E 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 substantially in the form included in Appendix E. Certain legal matters relating to the Series 2005C-D 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." Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2005C-D 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 Series 2005C-D Bonds

The Series 2005C-D 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 2005C-D Bonds will be delivered to DTC or its agent on or about April 5, 2005. The Bonds will be distributed in the initial offering by Piper Jaffray & Co., RBC Dain Rauscher Inc. and Banc of America Securities, LLC, for which Piper Jaffray & Co. is acting as representative.

Other 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 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 2005C-D Bonds.

THE SERIES 2005C-D BONDS

Generally

The Series 2005C-D Bonds are being issued pursuant to the Act, the Indenture, and resolutions adopted by the NMFA on January 13, 2005, and March 2, 2005. The Series 2005C-D Bonds are being issued to fund the purchase price of the Metro Court Bonds, as more particularly described below, as part of the NMFA's Public Project Revolving Fund Program, and to pay costs of issuing the Series 2005C-D Bonds. For a description of the program, see "NEW MEXICO FINANCE AUTHORITY – The Public Project Revolving Fund Program." See also "THE PLAN OF FINANCING – Sources and Uses of Funds." 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 Indenture are available as provided under "ADDITIONAL INFORMATION."

Description of the Series 2005C-D Bonds

The Series 2005C-D Bonds will be dated as of the Delivery Date. Interest on the Series 2005C-D Bonds will accrue from the Delivery Date of the Series 2005C-D 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 15 and December 15 of each year, commencing June 15, 2005. The Series 2005C-D 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 2005C-D 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 2005C-D 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 2005C-D Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2005C-D Bonds will be made in book-entry form only, and beneficial owners of the Series 2005C-D Bonds will not receive physical delivery of bond certificates, except as described below. 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 2005C-D Bonds. For a more complete description of the book-entry only system, see Appendix F — "BOOK-ENTRY ONLY SYSTEM."

Redemption of the Series 2005C Bonds

Generally

The Series 2005C Bonds are subject to optional redemption prior to maturity as described below.

Optional Redemption by the NMFA

The Series 2005C Bonds maturing on or after June 15, 2016 are subject to optional redemption at any time on and after June 15, 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 Series 2005C Bonds to be redeemed, plus accrued interest to the redemption date, but without premium.

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 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.

No Redemption of the Series 2005D Bonds

The Series 2005D Bonds are not subject to redemption prior to maturity.

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 SERIES 2005C-D BONDS

Special Limited Obligations

The Series 2005C-D Bonds are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2005C-D 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

2005C-D 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.

Presented on the following page is a diagram of the funds and the flow of revenues under the Indenture.

Trust Estate

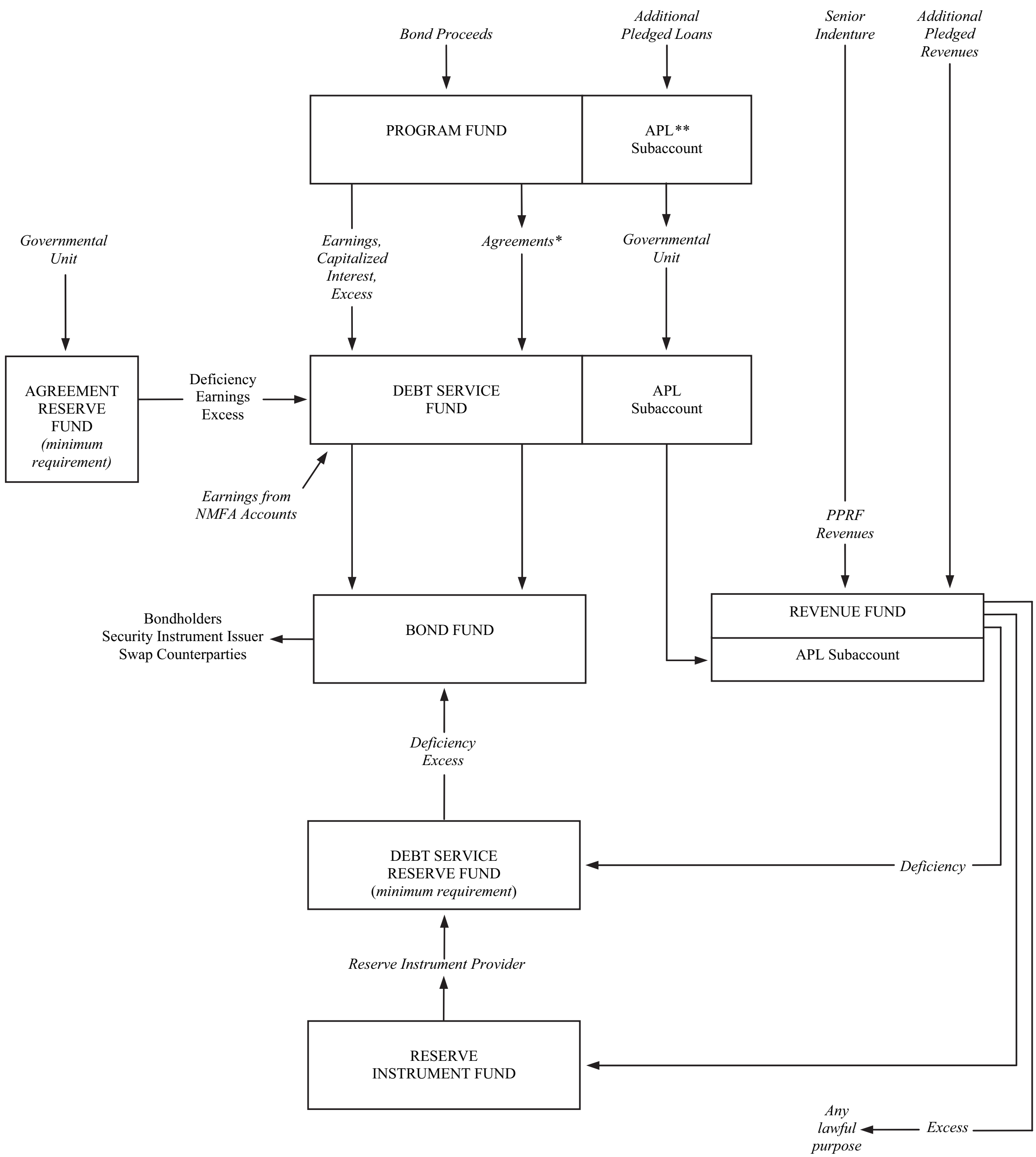
Generally

In the Indenture, the NMFA pledges and assigns the Trust Estate, first, for the equal and ratable payment of the Bonds, the PPRF Secured Obligations (as to amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments, and, second, for the equal and ratable payment of the Reserve Instrument Repayment Obligations. The Trust Estate includes —

- Subordinate Lien PPRF Revenues,
- Agreement Revenues,
- Additional Pledged Revenues, and
- other amounts in certain funds and accounts created and maintained pursuant to the Indenture,

all as more fully described below.

Indenture Flow of Funds



* Consist of Loans and Securities, including the Metro Court Bonds.
** "APL" refers to Additional Pledged Loans.

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 Subordinate Lien PPRF Revenues are transferred to the Trustee for deposit 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. 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 for use as described in the Indenture. These moneys are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Subordinate Lien PPRF Revenues and Additional Pledged Revenues are deposited, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B — "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." For a more complete description of the Revenue Fund, see "Revenue Fund" under this caption.

Subordinate Lien PPRF Revenues

Subordinate Lien PPRF Revenues consist in part of the NMFA Portion of the Governmental Gross Receipts Tax and moneys from the repayment to NMFA of the Additional Senior Pledged Loans deposited to the revenue fund created under the Senior Indenture ("PPRF Revenues"), to the extent such amounts are available on June 1 of each Bond Fund Year after all obligations of the NMFA under the Senior Indenture have been satisfied and the Trustee has retained any amounts required to be retained pursuant to the Senior Indenture. "Additional Senior Pledged Loans" are additional loans or securities made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund, the payments of principal of and interest on which have been specifically pledged by the NMFA to the payment of the Senior Bonds and other amounts due under the Senior Indenture. Pursuant to the Indenture, all such released moneys are to be deposited into the Revenue Fund created by the Indenture.

Subordinate Lien PPRF Revenues also consist in part of revenues from 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," and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds and PPRF Secured Obligations and other amounts secured by the Indenture. See "Flow of Funds" below under this caption.

Additional Pledged Loans (repayments of which are pledged to the payment of the Bonds) are not Additional Senior Pledged Loans (repayments of which are pledged only to the extent available for transfer under the Senior Indenture on June 1 of each Bond Fund Year).

Moneys in the Revenue Fund are available to pay on a parity basis debt service on Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments. Moneys in the Revenue Fund, after being applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Indenture, may be released to the NMFA on June 16 of each year to be used for any lawful purpose. However, only amounts not required to make payments of all Debt Service requirements on all Bonds and other parity obligations in the then current Bond Fund Year, after giving credit for amounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, may be released from the lien of the Indenture. Those moneys consisting of PPRF Revenues released from the lien of the Senior Indenture are paid to the Trustee immediately upon their release from the Senior Indenture on June 1 of each year and are available in the Revenue Fund for the purposes described above only until June 16 of each year. All payments representing principal and interest from Additional Pledged Loans (which, together with the PPRF Revenues released from the lien of the Senior Indenture, comprise Subordinate Lien PPRF Revenues) and all amounts received as Additional Pledged Revenues (which do not) are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA (although they also may be released on June 16 of each year to the extent they will not be required for debt service in the then current Bond Fund Year). For a more complete description of these deposits and transfers, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B — "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

The following table shows, for fiscal years 2000 through 2004, the amounts released to the NMFA from the Senior Indenture, which represents the amount that would be included as Subordinate Lien PPRF Revenues under the Indenture.

Historic Subordinate Lien PPRF Revenues
Fiscal Years 2000-04
(Released to NMFA on June 1)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
$14,561,663	$16,565,126	$21,694,363	$18,138,693	$18,185,919

Source: NMFA

The amount of Subordinate Lien PPRF Revenues actually received by the NMFA on any June 1 may be affected by several factors. Those factors include:

- The amount of Governmental Gross Receipts Taxes that will be collected and distributed to the NMFA and ultimately released from the Senior Indenture to become Subordinate Lien PPRF Revenues is subject to fluctuation based on the activities that generate those taxes. There can be no guarantee that the NMFA's Portion of the Governmental Gross Receipts Taxes collected in the future will be consistent with historical collection trends. See "Outstanding Senior Bonds – The Governmental Gross Receipts Tax – Collection and Distribution Information" under this caption.

- The amount of money to be released from the Senior Indenture to become Subordinate Lien PPRF Revenues may be reduced if the other revenues expected to pay debt service on the Senior Bonds in a given year are not available. The availability of those revenues is dependent upon many factors not within the NMFA's control, including the ability of entities to which the NMFA has loaned the proceeds of the Senior Bonds to repay those loans.

- Subject to the provisions of the Senior Indenture, the NMFA may issue additional Senior Bonds without the consent of the holders of the Bonds. For a description of the conditions that must be met to issue additional Senior Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Outstanding Senior Bonds."

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 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 (such revenues being 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 from its Agreement Revenues promptly and to continue such payments until its Loan is paid in full.

The Metro Court Bonds are "Securities," and thus "Agreements," for purposes of the Indenture. See Appendix D – "INFORMATION CONCERNING THE METRO COURT BONDS" for a description of the Metro Court Bonds and the revenues pledged to their payment, which constitute Agreement Revenues. Agreement Revenues are not among the amounts released from the Revenue Fund on June 16 of each year, as described above under "Subordinate Lien PPRF Revenues."

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 for those Governmental Units having a repayment obligation to the NMFA pursuant to Agreements for which the NMFA will 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 Agreement 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.** No account will be established in the Agreement Reserve Fund with respect to the Metro Court Bonds. See "PLAN OF FINANCING – Sources and Uses of Funds" and "Flow of Funds" below under this caption.

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 Subordinate Lien PPRF Revenues.

Additional Pledged Revenues

Additional Pledged Revenues consist of any additional revenues received by the NMFA and designated as part of the Trust Estate pursuant to the Indenture or a Pledge Notification. Additional Pledged Revenues are not revenues attributable to Additional Pledged Loans. There will be no Additional Pledged Revenues on the date of delivery of the Series 2005C-D Bonds.

Additional Pledged Revenues may be among the amounts released from the Revenue Fund on June 16 of each year to the extent they will not be required for debt service in the then current Bond Fund Year, as described above under "Subordinate Lien PPRF Revenues." However, Additional Pledged Revenues are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA. For a more complete description of these deposits and transfers, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B — "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Debt Service Reserve Fund

The Indenture permits the establishment of a separate Account in the Debt Service Reserve Fund solely for the benefit of the holders of a Series of Bonds, and establishes separate Accounts for the Series 2005C Bonds and the Series 2005D Bonds in an amount for each Series equal to an amount equal to the least of (1) 10% of the proceeds of such Series of Bonds determined on the basis of original principal amount (unless original issue premium or original issue discount exceeds two percent of original principal, then determined on the basis of initial purchase price to the public), (2) the maximum annual Debt Service during any Bond Fund Year for such Series of Bonds, and (3) 125% of the average annual Debt Service for such Series of Bonds (the "Debt Service Reserve Requirement"). If at any time the amount on deposit in any Account of the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement for that Account, the NMFA is required to make payments totaling the amount of any such deficiency directly to the Trustee for deposit into the Debt Service Reserve Fund.

The Debt Service Reserve Requirement may be funded entirely or in part with one or more letters of credit, bond insurance policies, surety bonds, standby bond purchase agreement, lines of credit or other devices (each, a "Reserve Instrument"). Ambac Assurance Corporation ("Ambac Assurance" and, in such role, the "Reserve Instrument Provider") has committed to issue a surety bond (a "Surety Bond") to be deposited to each of the Debt Service Reserve Accounts for the Series 2005C-D Bonds, in an amount equal to the Debt Service Reserve Requirement for the related series of Series 2005C-D Bonds. No Reserve Instrument may be allowed to expire or terminate while the related Series of Bonds are Outstanding unless and until cash has been deposited into the related account of the Debt Service Reserve Fund, or a new Reserve Instrument has been issued in place of the expiring or terminating Reserve Instrument, or any combination thereof in an amount or to provide coverage, as the case may be, at least equal to the amount required to be maintained in the related account of the Debt Service Reserve Fund.

Each Surety Bond provides that upon the later of (1) one day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the related series of Series 2005C-D Bonds when due has not been made or (2) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the

Paying Agent sufficient to enable the Paying Agent to make such payments due on the related series of Series 2005C-D Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of a Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the NMFA is required to reimburse Ambac Assurance for any draws under a Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the respective Surety Bond Coverage. The reimbursement obligation of the NMFA is subordinate to the NMFA's obligations with respect to the Series 2005C-D Bonds.

In the event the amount on deposit, or credited to an Account of the Debt Service Reserve Fund, exceeds the amount of the related Surety Bond, any draw on the Surety Bond shall be made only after all the funds in that Account have been expended. In the event that the amount on deposit in, or credited to, an Account of the Debt Service Reserve Fund, in addition to the amount available under the related Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on that Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

Flow of Funds

The Indenture creates a Revenue Fund, a Program Fund (with separate accounts for each Agreement or Project), a Bond Fund, a Debt Service Fund (with separate accounts for each Agreement), a Debt Service Reserve Fund (with a separate account if required for each series of Bonds with a Debt Service Reserve Requirement), an Agreement Reserve Fund (with a separate account, if required, for each Agreement that has a reserve requirement), an Expense Fund and a Reserve Instrument Fund.

Flow of Funds Under General Indenture

All Loan Payments payable under the Loan Agreements and Securities (except as otherwise provided in a Supplemental Indenture) are required to be paid directly to the NMFA for remittance to the Trustee for deposit immediately upon their receipt, as follows:

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; and

Third: to the payment of Program Costs (to the extent allocable to such Agreement).

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. Two Business Days prior to an Interest Payment Date, available moneys in the Revenue Fund will be transferred to the Paying Agent for the Bonds to the extent the amounts in the Bond Fund and the Debt Service Fund are insufficient to pay Debt Service on the Bonds on such Interest 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 from payments relating to a Governmental Unit's Agreement, (2) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (3) to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess 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. Any excess attributable to earnings on funds, and accounts for the Governmental Unit will be returned to the Governmental Unit or will be credited to the Loan Payments next coming due and any other excess will be deposited into the Revenue Fund.

Revenue Fund

During each Bond Fund Year, (1) all PPRF Revenues released from the lien of the Senior Indenture will be paid by the NMFA to the Trustee immediately upon their release on June 1 of each year, (2) all Additional Pledged Revenues will be immediately deposited with the Trustee and (3) all payments representing principal and interest from Additional Pledged Loans will be paid immediately upon their receipt by the NMFA to the Trustee. All of those amounts will be accounted for and maintained by the Trustee in the Revenue Fund. The Revenue Fund will be kept separate and apart from all other accounts of the Trustee and prior to transfers of any excess from the Revenue Fund on June 16 of each year (as described below), all amounts in it will be transferred by the Trustee in the order of priority specified below:

- To the Bond Fund, an amount needed, when added to amounts on deposit in the Bond Fund and transferred from the Debt Service Fund, to pay the principal of and interest on the Bonds due on June 15 and to rectify any deficiency in the Bond Fund that has not otherwise been rectified.

- To the paying agent for any PPRF Secured Obligation that notifies the Trustee, an amount needed, when added to amounts otherwise available for such purpose, to pay the principal and interest then due with respect to the PPRF Secured Obligations on June 15 and to rectify any such deficiency in the payment of any PPRF Secured Obligation has occurred that has not otherwise been rectified.

- To the Bond Fund, an amount needed, when added to amounts transferred from the Debt Service Fund, to pay the amounts due on the Security Instrument Repayment Obligations and the SWAP Payments (net of SWAP Receipts) then due pursuant to any Security Instrument Agreements or Interest Rate Swaps, and the amount needed to rectify any deficiency in the payment of any Security Instrument Repayment Obligations or SWAP Payments that has not been rectified.

The transfers required by the preceding paragraph are to be made on a parity basis. If the amount available for transfer is insufficient, the Trustee must make those transfers ratably according to the amounts due.

After making the transfers described above, the NMFA must make the following transfers to the Trustee:

- To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (1) to the Accounts in the Debt Service Reserve Fund, any amounts required by the General Indenture and by any Supplemental Indenture to accumulate therein the applicable Debt Service Reserve Requirement with respect to each Series of Bonds at the times and in the amounts provided in the General Indenture and in any Supplemental Indenture and (2) if funds shall have been withdrawn from an Account in the Debt Service Reserve Fund or any Account in the Debt Service Reserve Fund is at any time funded in an amount less than the applicable Debt Service Reserve Requirement, the NMFA shall transfer from the Revenue Fund to such Account or Accounts in the Debt Service Reserve Fund an amount sufficient to restore such Account or Accounts within one year with 12 substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Debt Service

Reserve Requirement); or a ratable portion (based on the amount to be transferred pursuant to the following bulleted clause) of remaining amounts if less than the amount necessary; and

- Equally and ratably to the Accounts of the Reserve Instrument Fund, with respect to all Reserve Instruments in effect and expected to continue in effect after the end of such month, such amount from the Revenue Fund, or a ratable portion (based on the amount to be transferred pursuant to the previous bulleted clause) of the amount so remaining if less than the amount necessary, that is required to be paid, on or before the next such transfer or deposit from the Revenue Fund into the Reserve Instrument Fund, to the Reserve Instrument Provider pursuant to any Reserve Instrument Agreement, other than Reserve Instrument Costs, in order to cause the Reserve Instrument Coverage to equal the Reserve Instrument Limit within one year from any draw date under the Reserve Instrument.

In the event that funds have been withdrawn from an Account in the Agreement Reserve Fund, or any Account in the Agreement Reserve Fund is at any time funded in an amount less than its Agreement Reserve Requirement after making the transfers described above, the NMFA will transfer for deposit in such Account sufficient Subordinate Lien PPRF Revenues, Agreement Revenues with respect to the related Agreement, Additional Pledged Revenues and revenues from Additional Pledged Loans to restore such Account within one year with 12 substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Agreement Reserve Requirement); or a ratable portion of remaining Subordinate Lien PPRF Revenues, Agreement Revenues with respect to the related Agreement, Additional Pledged Revenues and revenues from Additional Pledged Loans if less than the amount necessary.

After making the foregoing transfers to the Bond Fund and to the Paying Agent for the PPRF Secured Obligations and to the Security Instrument Issuers and to the SWAP Providers and to the Reserve Instrument Providers, on June 16 of each year, the NMFA will be entitled to direct the Trustee in writing to release to the NMFA the balance on deposit in the Revenue Fund and the Trustee must then transfer the balance to the NMFA. However, prior to any such release being made, there must be retained in the Revenue Fund an amount, after giving credit for available amounts in all accounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, sufficient to make payments of all Bond Debt Service requirements (calculated as provided in clauses (i), (ii) and (iii) of the definition of Debt Service presented under the caption "Definitions" in Appendix B — "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE"), Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations coming due in the then current Bond Fund Year; provided further, that once additional moneys are deposited into the Bond Fund to make all of the foregoing payments, the amounts retained in the Revenue Fund may be released from the lien of the Indenture but only to the extent of additional moneys deposited into the Bond Fund. The NMFA may use the balance for:

- deposit to the Public Project Revolving Fund as required by the Act;
- redemption of Bonds prior to maturity by depositing the same into the Bond Fund;
- refinancing, refunding, repurchase or advance refunding of any Bonds; or
- for any other lawful purpose, including payment of Program Costs for Bonds and similar costs for PPRF Secured Obligations, replacement of reserves for Bonds or PPRF Secured Obligations and payment of Termination Payments.

The NMFA may, but is not obligated to, use any legally available PPRF Revenues of the NMFA to satisfy its obligations under the Indenture.

Debt Service Reserve Fund

In the event of a deficiency in the Bond Fund for a Series of Bonds, the Trustee will transfer moneys on deposit in the related Account of the Debt Service Reserve Fund to the Bond Fund to make up such deficiency. Moneys on deposit in any Account of the Debt Service Reserve Fund will be used to make up any deficiencies in the

Bond Fund only for the Series of Bonds secured by that Account and any Reserve Instrument may only be drawn upon with respect to the Series of Bonds for which such Reserve Instrument was obtained.

If funds on deposit in an Account of the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund, and there is insufficient cash available in such Account of the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such Series are in effect, the Trustee will immediately make a demand for payment on such Reserve Instruments, to the maximum extent authorized by such Reserve Instruments, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund.

Moneys at any time on deposit in the account of the Debt Service Reserve Fund in excess of the amount required to be maintained therein (taking into account the amount of related Reserve Instrument Coverage) will be transferred by the Trustee to the Bond Fund at least once each year.

Investment Earnings

All income earned from the investment of moneys in the respective Accounts held by the NMFA and the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit exceeds the related Agreement Reserve Requirement), shall 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, with all earnings received on the Governmental Unit's Accounts being allocated solely to the benefit of such Governmental Unit.

NMFA Covenants Concerning Agreement Prepayments

For the purpose of matching, to the extent practicable, the overall debt service requirements on the Bonds with moneys received from Loan Payments on outstanding Loans, the NMFA must, within 365 days following the receipt of a Prepayment, in part or in full, of a Loan, take separately or in combination any one or more of the actions described in the next three paragraphs.

The NMFA may, to the extent practicable, call for optional redemption prior to maturity Bonds that 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 (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied); provided, however, that Prepayments of Loans not funded or reimbursed from proceeds of a Tax-exempt Bond shall not be used to redeem Tax-exempt Bonds. The NMFA shall 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 NMFA may, to the extent practicable, originate one or more new Loans (1) 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), and (2) with a final maturity date and debt service requirements corresponding to those 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). The NMFA shall 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.

In the event that the NMFA does not take one of the actions described in either of the two previous paragraphs, the NMFA must defease Bonds, in Authorized Denominations, to their first optional redemption date or maturity date, whichever is earlier, 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). The principal amount and maturity date of the Bonds to be defeased shall correspond to the principal amount and due date of the Principal Component of such Prepayment. The NMFA shall recalculate the Loan payments due under any Loan in the case of a Prepayment in part of Loan payments under such Loan in a manner is consistent with the actions taken.

If, within 90 days following the receipt of a Prepayment, the NMFA has not either redeemed Bonds or originated one or more new Loans, the NMFA must restrict the yield on investment of the Prepayment amount to the yield on the Loan on which the Prepayment was made, until one or more new Loans have been originated in an aggregate principal amount equal to or greater than the amount of the Prepayment, until Bonds have been redeemed, or until Bonds have been defeased.

Additional Bonds

Generally

Additional Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued, created or incurred, only if certain requirements have been met, including the following:

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

- 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, PPRF Secured Obligations 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), (2) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance) or (3) to finance other projects approved by the NMFA.

- No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes if (1) the issuance of such Additional Bonds, PPRF Secured Obligations 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, PPRF Secured Obligations or other indebtedness, bonds or notes and the application of the proceeds thereof.

All payments required to be made into the Bond Fund must have been made in full, and there must be on deposit in each account of the Debt Service Reserve Fund (taking into account any Reserve Instrument Coverage) the full amount required to be accumulated therein at the time of issuance of the Additional Bonds.

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" means 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 or PPRF Secured Obligations expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year or Interest Rate Swaps to be executed, 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 or Additional Pledged Revenues released from the 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 Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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 (as defined below) to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

- the earnings on the Bond Fund for each such Bond Fund Year; and

- the Aggregate Annual Debt Service (as defined below) for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Instrument Repayment Obligations reasonably expected to be Outstanding; and

- showing that in each such Bond Fund Year the aggregate of the amounts set forth in the first three bulleted clauses above exceeds 100% of the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Obligations reasonably expected to be Outstanding. For purposes of the foregoing, the following assumptions apply:

    - The Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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;

    - For any Bonds issued in a 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

    - Earnings on the Bond Fund will be assumed to equal the greatest amounts from any consecutive 12 months of the immediately preceding 24 months.

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 Agencies.

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 Agencies.

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 Agencies, but excluding Category IV Loans and Additional Pledged Loans.

Category IV Loans and Additional Pledged Loans are all PPRF Secured Obligations, Nonperforming Loans and Additional Pledged Loans (as defined below), 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" 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.

For most purposes of the Indenture, "Rating Agencies" means Moody's Investors Service, Inc., Standard and Poor's 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. For purposes of the Cash Flow Statement, however, "Rating Agencies" means Moody's Investors Service, Inc. and Fitch Ratings or their successors and assigns; provided that, if more than one such Rating Agency will be categorizing Loans and Additional Pledged Loans, for purposes of assigning a category, "Rating Agencies" will refer to the Rating Agency assigning the lower of the categorizations.

Pursuant to the Indenture, at the time of issuance of each series of Bonds or PPRF Secured Obligation, 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, a PPRF Secured Obligation or an Additional Pledged Loan may be revised by the Rating Agencies except (1) in the case of Category IV Loans, PPRF Secured Obligations or Additional Pledged Loans, which may be designated by the NMFA or the Rating Agencies, or (2) in the case of Nonperforming Loans and Additional Pledged Loans, recategorization shall occur automatically.

On the date of delivery of the Series 2005C-D Bonds, the Metro Court Bonds will be the only Agreements under the Indenture and, as such, have been designated as Category I Loans.

The formula described in detail above can be expressed as follows: If A = Subordinate Lien Pledged Revenues and Additional Pledged Revenues, B = Assumed Repayments of Loans and Additional Pledged Loans, C = Bond Fund earnings and D = Aggregate Annual Debt Service on all Bonds Outstanding), then Additional Bonds may be issued under the Indenture if:

$$A + B + C > D$$

PPRF Secured Obligations

The NMFA may identify any bond, note or other obligation identified in a Supplemental Indenture or Pledge Notification as a PPRF Secured Obligation. PPRF Secured Obligations are secured solely with amounts deposited to the Revenue Fund, including the Subordinate Lien Pledged Revenues, and are not Bonds.

No Senior Lien Obligations Other Than Senior Bonds

Other than the Senior Bonds, no additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Trust Estate for payment of the Bonds, PPRF Secured Obligations, the Security Instrument Repayment Obligations and the SWAP Payments will be created or incurred without the prior written consent of 100% of the Owners of Outstanding Bonds, Owners of PPRF Secured Obligations, Security Instrument Issuers and SWAP Counterparties.

Outstanding Senior Bonds

General

The NMFA is authorized to issue bonds pursuant to the Senior 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 "Senior PPRF Agreements"). The Senior Bonds are secured by:

- all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, as more fully described below under "The Governmental Gross Receipts Tax";

- all revenues received or earned by the NMFA from or attributable to the Senior PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program);

- all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Senior Indenture; and

- all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Senior Indenture.

The NMFA has previously issued, and expects to issue in the future, Senior Bonds under the Senior Indenture. The timing, amount and other details of any additional Senior Bonds have not been determined. The following table presents the series of Senior Bonds that are currently outstanding under the Senior Indenture (the "Outstanding Senior Bonds").

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of February 1, 2005
1995A	$ 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	7,525,000
2002A	55,610,000	36,970,000
2003A	39,945,000	36,021,000
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
2004C	168,890,000	168,890,000
TOTAL	$518,230,000	$399,906,000

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 allocated to the NMFA is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Senior Indenture, the NMFA Portion of the Governmental Gross Receipts Tax is paid when received by NMFA to the Trustee for deposit in the revenue fund created under the Senior Indenture and is available (1) to pay debt service on the Senior Bonds to the extent Loan Payments paid pursuant to loans or securities made or issued in connection with projects funded with proceeds of Senior Bonds are not sufficient to pay debt service when due, and (2) to pay debt service on the portions of the Senior Bonds issued to fund grants.

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; or

- 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:

- 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;

- 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.

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 2003-04. 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 concerning top payers for fiscal years 2001-02 through 2003-04. 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 2001-02 Through 2003-04

	Fiscal Year 2001-02		Fiscal Year 2002-03		Fiscal Year 2003-04	
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

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 Agencies that such amendment will not result in the rating on the Bonds and the PPRF Secured Obligations, following such amendment, being lower than the rating on the Bonds and the PPRF Secured Obligations immediately prior to such amendment. See Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE — Supplemental Indentures, Amendments to Agreements, and Amendments and Supplements to Senior 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, Additional Pledged Loan documents and any existing Security Documents 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 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 2005C-D Bond Insurer") for use in this Official Statement. Such information regarding the Series 2005C-D Bond Insurer and the Series 2005C-D 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 2005C-D Bond Insurance Policy.*

Payment Pursuant to Series 2005C-D Bond Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Series 2005C-D Bond Insurance Policy") relating to the Series 2005C-D Bonds effective as of the date of issuance of the Series 2005C-D Bonds. Under the terms of the Series 2005C-D 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 2005C-D 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 2005C-D 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 2005C-D Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Series 2005C-D 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 2005C-D Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2005C-D Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2005C-D 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 2005C-D 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 2005C-D 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 2005C-D Bond Insurance Policy does *not* insure any risk other than Nonpayment, as defined in the Series 2005C-D Bond Insurance Policy. Specifically, the Series 2005C-D 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 2005C-D Bond Insurance Policy, payment of principal requires surrender of Series 2005C-D Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2005C-D Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Series 2005C-D Bond Insurance Policy. Payment of interest pursuant to the Series 2005C-D 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 2005C-D Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2005C-D 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 $8,329,000,000 (unaudited) and statutory capital of approximately $5,224,000,000 (unaudited) as of December 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 2005C-D Bonds or the advisability of investing in the Series 2005C-D 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 <u>Form 10-K</u> for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

- The Company's Current Report on <u>Form 8-K</u> dated April 21, 2004 and filed on April 22, 2004;

- The Company's Quarterly Report on <u>Form 10-Q</u> for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

- The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
- The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;
- The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;
- The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004;
- The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004;
- The Company's Current Report on Form 8-K dated November 12, 2004 and filed on November 12, 2004; and
- The Company's Current Report on Form 8-K dated January 26, 2005 and filed on January 26, 2005.

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

Governmental Unit and Project

Proceeds from the sale of the Series 2005C-D Bonds will be used by the NMFA to purchase, contemporaneously with the issuance of the Series 2005C-D Bonds, its Metro Court Bonds. The Metro Court Bonds will provide funds for the refunding of bonds issued by the NMFA to finance the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court. For information concerning the Bernalillo County Metropolitan Court building and the New Mexico court system, see Appendix D.

Sources and Uses of Funds

The estimated, combined sources and uses of funds in connection with the Series 2005C-D Bonds and the Metro Court Bonds are set forth in the following table.

Combined Sources and Uses of Funds

SOURCES:	
Series 2005C Bonds Par Amount	$50,395,000.00
Net Premium	3,036,904.70
Series 2005D Bonds Par Amount	8,660,000.00
TOTAL SOURCES:	$62,091,904.70
USES:	
Deposit to Escrow Fund	$48,831,943.90
Deposit to Program Fund	3,660,000.00
Current Refunding	8,511,003.26
Deposit to Debt Service Fund	3,450.51
Costs of Issuance*	1,085,507.03
TOTAL USES:	$62,091,904.70

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* Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, trustee and escrow agency fees, escrow verification costs, underwriters' discount, insurance and surety premiums, and other miscellaneous costs. See "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total combined debt service payable for the Series 2005C-D Bonds for each fiscal year through each Series' final maturity date.

Combined Debt Service for the Series 2005C-D Bonds

Fiscal Year	Principal[1] [3]	Interest[2] [3]	Annual Debt Service Requirements[3]
2005	$ 2,545,000	$ 543,153	$ 3,088,153
2006	1,760,000	2,715,737	4,475,737
2007	1,830,000	2,649,561	4,479,561
2008	1,905,000	2,576,178	4,481,178
2009[4]	1,985,000	2,495,406	4,480,406
2010	2,080,000	2,403,169	4,483,169
2011	2,180,000	2,302,769	4,482,769
2012	2,285,000	2,196,931	4,481,931
2013	2,400,000	2,082,681	4,482,681
2014	2,525,000	1,964,031	4,489,031
2015	2,650,000	1,841,381	4,491,381
2016	2,775,000	1,712,869	4,487,869
2017	2,915,000	1,574,119	4,489,119
2018	3,060,000	1,429,769	4,489,769
2019	3,215,000	1,277,219	4,492,219
2020	3,375,000	1,117,213	4,492,213
2021	3,540,000	948,463	4,488,463
2022	3,725,000	771,463	4,496,463
2023	3,900,000	590,463	4,490,463
2024	4,100,000	395,163	4,495,463
2025[5]	4,305,000	190,463	4,495,463
TOTAL	$59,055,000	$33,778,498	$92,833,498

(1) Payable on June 15 of each year.
(2) Payable on June 15 and December 15, commencing June 15, 2005.
(3) Numbers are rounded to the nearest dollar.
(4) Final maturity of the Series 2005D Bonds.
(5) Final maturity of the Series 2005C Bonds.

Source: Piper Jaffray & Co.

The following table shows estimated available Subordinate Lien PPRF Revenues, Agreement Revenues relating to the Metro Court Bonds, total debt service requirements for the Series 2005C-D Bonds and the resulting estimated annual coverage ratios. Subordinate Lien PPRF Revenues for current and future fiscal years are based on fiscal year 2003-04 collections of Subordinate Lien PPRF Revenues, which in turn derived from scheduled payments and prepayments of the Additional Senior 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 SERIES 2005C-D BONDS – Trust Estate – Subordinate Lien PPRF Revenues" for a list of some of the factors affecting Subordinate Lien PPRF Revenues.

Annual Debt Service Requirements and Projected Coverage Ratios

	Revenues				
Fiscal Year	Subordinate Lien PPRF Revenues[1]	Agreement Revenues[2] [3]	Estimated Total Revenues	Total Debt Service Requirements for 2005C-D Bonds[3]	Estimated Annual Coverage Ratios[4]
2005	$18,185,919	$3,088,153	$21,274,072	$3,088,153	6.89X
2006	18,185,919	4,475,737	22,661,656	4,475,737	5.06X
2007	18,185,919	4,479,561	22,665,488	4,479,561	5.06X
2008	18,185,919	4,481,178	22,667,097	4,481,178	5.06X
2009	18,185,919	4,480,406	22,676,325	4,480,406	5.06X
2010	18,185,919	4,483,169	22,669,088	4,483,169	5.06X
2011	18,185,919	4,482,769	22,668,688	4,482,769	5.06X
2012	18,185,919	4,481,931	22,667,850	4,481,931	5.06X
2013	18,185,919	4,482,681	22,668,600	4,482,681	5.06X
2014	18,185,919	4,489,031	22,674,950	4,489,031	5.05X
2015	18,185,919	4,491,381	22,677,300	4,491,381	5.05X
2016	18,185,919	4,487,869	22,673,788	4,487,869	5.05X
2017	18,185,919	4,489,119	22,675,038	4,489,119	5.05X
2018	18,185,919	4,489,769	22,675,688	4,489,769	5.05X
2019	18,185,919	4,492,219	22,678,138	4,492,219	5.05X
2020	18,185,919	4,492,213	22,678,132	4,492,213	5.05X
2021	18,185,919	4,488,463	22,674,382	4,488,463	5.05X
2022	18,185,919	4,496,463	22,682,382	4,496,463	5.04X
2023	18,185,919	4,490,463	22,676,382	4,490,463	5.04X
2024	18,185,919	4,495,463	22,681,382	4,495,463	5.05X
2025	18,185,919	4,495,463	22,681,382	4,495,463	5.05X

(1) See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Trust Estate – Subordinate Lien PPRF Revenues.” Future collections of the Subordinate Lien PPRF Revenues are based on fiscal year 2003-04 collections provided by the NMFA.

(2) See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Trust Estate – The Agreements and the Agreement Revenues.” Represents scheduled payments of principal of and interest on the Metro Court Bonds and does not reflect the redemption of any Metro Court Bonds that may occur while the Series 2005C-D Bonds are outstanding.

(3) Numbers are rounded to the nearest dollar.

(4) The Estimated Annual Coverage Ratios are calculated using unaudited fiscal year 2003-04 Subordinate Lien PPRF Revenues figures provided by the NMFA, and assume that no Additional Bonds and PPRF Secured Obligations will be issued by the NMFA.

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 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 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 the 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 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 Series 2005C-D 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., on the Board of Directors of Open Hands and of 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 January 31, 2005, the NMFA has made 444 PPRF loans totaling $603,789,854. 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 Senior Lien Program

The NMFA is authorized to issue bonds pursuant to the Senior Indenture to provide funds to Governmental Units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. 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 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 SERIES 2005C-D BONDS – Outstanding Senior Bonds" for a list of series of outstanding Senior Bonds.

Other NMFA 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 projects are funded by various sources and do not have a lien or claim of any type on, nor do they contribute revenues to, the Trust Estate that secures the Series 2005C-D Bonds.

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. 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. The NMFA expects to issue a final series in 2007.

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 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 $12,000,000 for the purpose of financing court automation systems, including the acquisition, development and installation of computer hardware and software for 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 from the court automation fund, consisting of a portion of the docketing fees and costs collected by the various courts of the State and a $10 court automation fee assessed on "penalty assessment misdemeanors" of the New Mexico Motor Vehicle Code and Motor Carrier Act. 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 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 2005C-D 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 2005C-D 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 has made 115 grants totaling $44,644,019 and has approved an additional 38 projects, totaling $13,011,233. 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 and to pay the administrative costs of the program. 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 has made 28 grants totaling $607,400. Additionally, as of January 31, 2005, the NMFA has 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.

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.

Equipment 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 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. The NMFA must obtain, within two years after loans are made, specific authorization from the Legislature or issue bonds, the proceeds of which will be used to reimburse the Public Project Revolving Fund for the amounts used to make equipment program loans. Temporary loans made under the equipment program are not required to be specifically authorized by law.

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 2005C-D 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 2005C-D Bonds or in any way contesting or affecting the validity or enforceability of the Series 2005C-D 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 2005C-D Bonds.

UNDERWRITING

Piper Jaffray & Co., RBC Dain Rauscher Inc. and Banc of America Securities, LLC (collectively, the "Underwriters") have agreed to purchase the Series 2005C-D Bonds from the NMFA pursuant to a Bond Purchase Agreement dated March 2, 2005 (the "Bond Purchase Agreement"), at an aggregate price of $61,768,283.30 (being the aggregate principal amount plus a net reoffering premium of $3,036,904.70 and less underwriters' discount of $323,621.40). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2005C-D 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 2005C-D 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 2005C Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2005C Bonds. The NMFA has 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 2005C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005C 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 with such requirements and restrictions in rendering its opinion regarding the tax exempt status of interest on the Series 2005C 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 2005C 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 2005C 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 2005C 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 2005C Bonds.

Original Issue Premium. Certain of the Series 2005C Bonds are offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2005C Bond through reductions in the holder's tax basis for the Series 2005C 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 2005C Bond rather than creating a deductible expense or loss. Series 2005C Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the Series 2005C 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 2005C Bond accrues as tax-exempt interest periodically over the term of the Series 2005C Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2005C Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2005C Bondholders should consult their tax advisors for an explanation of the accrual rules.

Series 2005D Bonds

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, interest on the Series 2005D 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 2005C-D 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 2005C-D 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 E. 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 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 Series 2005C-D 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, 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 and are subject to the acceptance of the NMFA, which has not yet formally acted on that matter. 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 in connection with the issuance of the Series 2005C-D Bonds, the NMFA will execute and deliver a Continuing Disclosure Undertaking pursuant to which it will agree to provide the following information:

- to each nationally recognized municipal securities information repository ("NRMSIR") within 270 days of the end of each fiscal year (and to the Trustee and to each holder of the Series 2005C-D Bonds who requests such information):

    - annual financial information and operating data concerning the Subordinate Lien PPRF Revenues, such information to be of the type set forth under the table captioned "Historic Subordinate Lien PPRF Revenues – Fiscal Years 2000-04 (Released to NMFA on June 1)" under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005C-D BONDS – Trust Estate – Subordinate Lien PPRF Revenues" in the Official Statement;

    - annual financial information and operating data concerning the Pledged Court Facilities Revenues, such information to be of the type set forth under the table captioned "Total Collections of Court Facilities Fees – Fiscal Years 1999-2004" in Appendix D under the caption "Security for the Metro Court Bonds – Historic Collections of Pledged Court Facilities Revenues" in the Official Statement; and

    - audited financial statements for the NMFA and the Administrative Office of the Courts, or, if audited financial statements are not available within 270 days of the end of the fiscal year, 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.

- 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 Series 2005C-D Bonds or the Metro Court 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 Series 2005C-D Bonds or the Metro Court Bonds;
    - modification of rights of security holders;
    - bond calls;
    - defeasances;
    - release, substitution, or sale of property securing repayment of the Series 2005C-D Bonds or the Metro Court 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 Series 2005C-D Bonds or the Metro Court 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 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 2005C-D 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 2005C-D 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 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.

Financial information and operating data for the New Mexico court system and Pledged Court Facilities Revenues are presented in Appendix D — "INFORMATION CONCERNING THE METRO COURT BONDS."

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa" and "AAA," respectively, to the Series 2005C-D Bonds, based on the understanding that upon the delivery of the Series 2005C-D Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2005C-D Bonds will be issued by the Series 2005C-D Bond Insurer. In addition, Moody's and Fitch have assigned underlying (*i.e.*, without regard to the Series 2005C-D Bond Insurance Policy) long-term ratings of "A3" and "A+," respectively, to the Series 2005C-D Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, 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 2005C-D 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 2005C-D Bonds may have an adverse effect on the market price of the Series 2005C-D Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2005C-D Bonds any proposed revision or withdrawal of the ratings on the Series 2005C-D 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: Executive Director.

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 2005C-D Bonds.

APPROVAL BY THE NMFA

This 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, 2004

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NEFF + RICCI LLP

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CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

A-1

NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2004

TABLE OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2004

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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A-3

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.

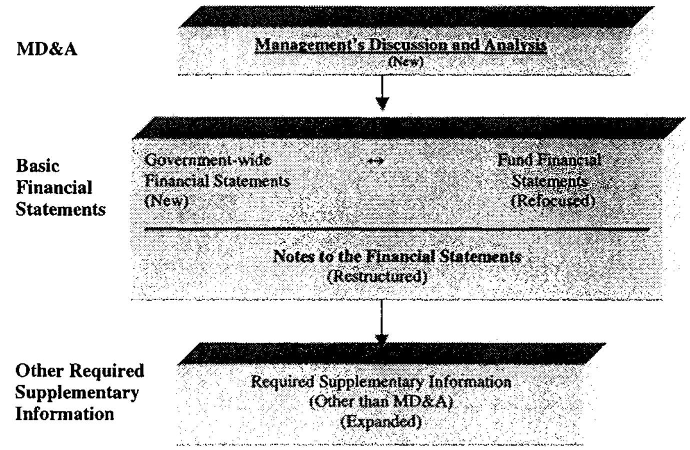
The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY 2004, 40 grants closed for a total of $10,730,017, compared to 40 grants totaling $20,452,613 in FY 2003.

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.

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:



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.

A-6

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

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

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	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	$ -	-	2,195,870	3,201,122	16,286,452	73,569	17,069,269	39,940,824	3,291,994	82,059,100
Tax revenue receivable	-	-	452,613	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
	-	-	2,648,483	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	-	-	4,136,966	-	-	-	-	-	57,977	4,194,943
Bond reserve	-	-	70,128	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	-	-	4,207,094	1,444,671	-	32,241,774	-	-	651,677	38,545,216
Total assets	$ -	-	6,855,577	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	-	-	111,140	-	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	-	-	111,140	2,000,000	321,568	1,757,059	72,642	10,262	302,544	4,575,215
Fund balances - reserved for										
Debt service	-	-	6,744,437	-	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	-	-	6,744,437	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	$ -	-	6,855,577	4,886,131	16,786,452	32,315,343	17,069,269	39,940,824	4,750,395	122,603,991

See Notes to Financial Statements.

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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A-13

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.

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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A-15

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.

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.

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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			Bank	Book
	1	2	3	Balance	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.

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.

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.

A-32

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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

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

A-34

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 Ádelino 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

A-37

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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A-39

NEW MEXICO FINANCE AUTHORITY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2004

	Administration Fee Revenue Program (TRIMS Project)	Behavioral Health Clinic	Court Automation Financing Fund	Economic Development
ASSETS				
Cash and cash equivalents	$ -	-	-	-
Tax revenue receivable	-	-	-	-
Other assets	-	-	-	-
Due from other funds	-	-	-	-
Due from other state agencies	-	-	-	-
Loans receivable	-	500,000	-	-
	-	500,000	-	-
Restricted Assets				
Cash and cash equivalents held for others by trustee				
Debt service	-	23,501	-	-
Bond reserve	-	-	-	-
Expense fund	-	-	-	-
Program - Grant proceeds for other state agency	-	59,409	-	-
Program - Bond proceeds	-	-	-	-
Total restricted assets	-	82,910	-	-
Total assets	$ -	582,910	-	-
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$ -	-	-	96,250
Debt service payable	-	23,388	-	-
Notes payable	-	-	-	-
Funds held for others	-	59,409	-	-
Due to other state agencies	-	-	-	-
Due to other funds	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	-	82,797	-	96,250
Fund balances (deficit) - reserved for				
Debt service	-	-	-	-
Special revenue funds	-	500,113	-	(96,250)
Total fund balances	-	500,113	-	(96,250)
Total liabilities and fund balances	$ -	582,910	-	-

	Emergency Drought Relief	Equipment Loan Fund	Insurance Department Financing Fund	State Capitol Improvement Financing Fund	Water Planning Grant	Workers' Compensation Financing Fund	Total Other Governmental Funds
ASSETS							
Cash and cash equivalents	494,515	$ -	-	355,009	1,826,643	$ 615,827	3,291,994
Tax revenue receivable	-	211,004	-	83,374	-	12,346	306,724
Other assets	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Due from other state agencies	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	-	-	500,000
	494,515	211,004	-	438,383	1,826,643	628,173	4,098,718
Restricted Assets							
Cash and cash equivalents held for others by trustee							
Debt service	-	34,476	-	-	-	-	57,977
Bond reserve	-	-	-	-	-	172,377	172,377
Expense fund	-	-	-	-	-	-	-
Program - Grant proceeds for other state agency	-	-	-	-	-	14	59,423
Program - Bond proceeds	-	-	-	-	-	361,900	361,900
Total restricted assets	-	34,476	-	-	-	534,291	651,677
Total assets	494,515	$ 245,480	-	438,383	1,826,643	$ 1,162,464	4,750,395
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable and accrued liabilities	34,595	$ -	-	80,263	5,631	-	216,739
Debt service payable	-	-	-	-	-	-	23,388
Notes payable	-	-	-	-	-	-	-
Funds held for others	-	-	-	-	-	-	59,409
Due to other state agencies	-	-	-	-	-	-	-
Due to other funds	3,008	-	-	-	-	-	3,008
Bonds payable	-	-	-	-	-	-	-
Total liabilities	37,603	-	-	80,263	5,631	-	302,544
Fund balances (deficit) - reserved for							
Debt service	-	245,480	-	358,120	-	1,162,464	1,766,064
Special revenue funds	456,912	-	-	-	1,821,012	-	2,681,787
Total fund balances	456,912	245,480	-	358,120	1,821,012	1,162,464	4,447,851
Total liabilities and fund balances	494,515	$ 245,480	-	438,383	1,826,643	1,162,464	4,750,395

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Administration Fee Revenue Program (TRIMS Project)	Behavioral Health Clinic	Court Automation Financing Fund	Economic Development
Revenues				
Tax revenue	$ -	500,000	-	-
Grant revenue	-	-	-	-
Interest on loans	-	-	-	-
Interest on investments	214	113	176	-
Other revenue	-	-	-	-
Total revenues	214	500,113	176	-
Expenditures				
Administrative fee	-	-	-	-
Professional services	-	-	(25,843)	81,554
Salaries and fringe benefits	-	-	-	10,735
In-state travel	-	-	-	939
Maintenance and repairs	-	-	-	175
Operating costs	-	-	-	2,847
Grant expense	-	-	-	-
Total current expenditures	-	-	(25,843)	96,250
Debt service				
Principal payments	-	-	-	-
Interest expense	-	-	-	-
Bond issuance costs	-	-	-	-
Total debt service expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	214	500,113	26,019	(96,250)
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Bond premium	-	-	-	-
Transfers (to) from other funds	-	-	(1,179)	-
Transfers to other state agencies	(20,008)	-	(32,037)	-
Total other financing sources (uses)	(20,008)	-	(33,216)	-
Net change in fund balance	(19,794)	500,113	(7,197)	(96,250)
Fund balances - beginning	19,794	-	7,197	-
Restatement	-	-	-	-
Fund balances - beginning, as restated	19,794	-	7,197	-
Fund balances - ending	$ -	500,113	-	(96,250)

See Notes to Financial Statements.

	Emergency Drought Relief	Equipment Loan Fund	Insurance Department Financing Fund	State Capitol Improvement Financing Fund	Water Planning Grant	Workers' Compensation Financing Fund	Total Other Governmental Funds
Revenues							
Tax revenue	$ -	651,251	71,763	1,079,630	-	1,014,165	3,316,809
Grant revenue	255,000	-	-	-	1,000,000	-	1,255,000
Interest on loans	-	-	-	-	-	-	-
Interest on investments	5,758	22,856	3,647	5,823	22,611	37,323	98,521
Other revenue	-	-	-	-	-	-	-
Total revenues	260,758	674,107	75,410	1,085,453	1,022,611	1,051,488	4,670,330
Expenditures							
Administrative fee	-	10,454	-	19,449	-	8,689	38,592
Professional services	-	-	(9,047)	-	21,315	1,424	69,403
Salaries and fringe benefits	29,528	-	-	-	13,147	-	53,410
In-state travel	592	-	-	-	28	-	1,559
Maintenance and repairs	290	-	-	-	221	-	686
Operating costs	8,199	-	-	-	7,048	-	18,094
Grant expense	59,842	-	-	-	160,031	-	219,873
Total current expenditures	98,451	10,454	(9,047)	19,449	201,790	10,113	401,617
Debt service							
Principal payments	-	584,000	-	430,000	-	165,000	1,179,000
Interest expense	-	129,351	-	544,600	-	183,128	857,079
Bond issuance costs	-	-	-	-	-	-	-
Total debt service expenditures	-	713,351	-	974,600	-	348,128	2,036,079
Excess (deficiency) of revenues over expenditures	162,307	(49,698)	84,457	91,404	820,821	693,247	2,232,634
Other Financing Sources (Uses)							
Bond proceeds	-	-	-	-	-	-	-
Bond premium	-	-	-	-	-	-	-
Transfers (to) from other funds	-	-	-	-	-	-	(1,179)
Transfers to other state agencies	-	-	(758,095)	-	-	(778,335)	(1,588,475)
Total other financing sources (uses)	-	-	(758,095)	-	-	(778,335)	(1,589,654)
Net change in fund balance	162,307	(49,698)	(673,638)	91,404	820,821	(85,088)	642,980
Fund balances - beginning	294,605	1,849,655	673,638	266,716	1,000,191	1,247,552	5,359,348
Restatement	-	(1,554,477)	-	-	-	-	(1,554,477)
Fund balances - beginning, as restated	294,605	295,178	673,638	266,716	1,000,191	1,247,552	3,804,871
Fund balances - ending	$ 456,912	245,480	-	358,120	1,821,012	1,162,464	4,447,851

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2004

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	HSBC New York (New York)	Total
Bank Accounts				
Operating account - checking	$ 35,079	-	-	35,079
Wire Transfers - checking	202,262	-	-	202,262
Repurchase Agreements	-	3,934,895	3,279,691	7,214,586
Total amount of deposits (bank balances)	237,341	3,934,895	3,279,691	7,451,927
FDIC coverage	(100,000)			(100,000)
Total uninsured public funds	137,341	3,934,895	3,279,691	7,351,927
Collateral requirement @ 102%	140,088	4,013,593	3,345,285	7,498,966
Pledges and securities				
FNMA, matures March 1, 2033				
Held at Wells Fargo, San Francisco, California				
CUSIP 31385W257				
Par $202,633	206,307	-	-	206,307
UST, matures August 15, 2004				
Held at Wells Fargo, Charlotte, North Carolina				
CUSIP 912827Q88				
Par $4,400,000	-	4,427,500	-	4,427,500
UST, matures November 15, 2004				
Held at JP Morgan Chase, New York, New York				
Par $3,435,000				
CUSIP 912833FV7	-	-	3,415,421	3,415,421
Over/(under) secured	$ 66,219	413,907	70,136	550,262

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES
Year Ended June 30, 2004

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds	66.648	$ 3,149,411

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
66.648	New Mexico Environment Department	$ 2,345,384

NOTE C. LOANS FUNDED

	Original Balance	Balance at June 30, 2004
Revolving Loans		
Loans funded in previous years	$19,382,563	17,771,249
Loans funded in current year		
Northstar DWC & MSW Coop	1,779,798	1,779,798
Total loans funded	$21,162,361	19,551,047

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

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

Members of the 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, 2004, and have issued our report thereon dated December 3, 2004. 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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a 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 misstatements caused by error or fraud 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.

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 results 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 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
December 3, 2004

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

A-43

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, 2004. 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, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 04-01.

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
December 3, 2004

NEW MEXICO FINANCE AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004

Comment	Current Status
03-1 Information Systems Security Policy	Resolved
03-2 Information Systems Disaster Recovery Policy	Resolved

NEW MEXICO FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

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 reportable conditions disclosed during the audit of the financial statements as 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. There were no reportable conditions disclosed during the audit of the major federal award programs as 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 was one audit finding 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

None

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

04-01 Drinking Water State Revolving Fund – Cash Draw and State Match Requirements

CONDITION

As noted in the final Program Evaluation Report completed by the Environmental Protection Agency (EPA) during its site visit of October 28-30, 2003, the Authority was not in compliance with the cash draw proportionality rules and state match requirements.

CRITERIA

The Authority is required to comply with the cash draw proportionality rules and state match requirements of the Drinking Water State Revolving Fund Program, specifically 40 CFR 35.3550(g), 35.5550(f) and 35.3560(g).

CAUSE

The State matched less than the required matching amount. State matching funds were deposited after the federal matching funds were deposited.

EFFECT

The Authority was not in compliance with the cash draw proportionality rules and state match requirements of the Drinking Water State Revolving Fund Program, specifically 40 CFR 35.3550(g), 35.5550(f) and 35.3560(g).

RECOMMENDATION

We recommend that the Authority adheres to the correct draw ratio and continue to monitor the ratio as each draw is completed. We also recommend that State matching funds be deposited concurrently with or before federal funds are deposited.

MANAGEMENT RESPONSE

Subsequent to the issuance of the EPA's Program Evaluation Report, the Authority transferred state matching funds to the Drinking Water Fund to address the proportionality and state match requirements cited in the report.

NEW MEXICO FINANCE AUTHORITY
EXIT CONFERENCE
June 30, 2004

An exit conference was held on December 10, 2004, and attended by the following:

New Mexico Finance Authority Personnel

Bill Sisneros, Executive Director
Keith H. Mellor, Chief Financial Officer
Gary Bland, Board Member

Neff + Ricci LLP Personnel

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 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 2005C-D Bonds, copies of the Indenture will be available at the principal office of the Underwriters. Subsequent to the offering of the Series 2005C-D Bonds, copies of the Indenture may be obtained from the Trustee.

Definitions

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

"Accreted Amount" means, with respect to Capital Appreciation Bonds of any Series and as of the date of calculation, the amount established pursuant to the Supplemental Indenture authorizing such Capital Appreciation Bonds as the amount representing the initial public offering price, plus the accumulated and compounded interest on such Bonds.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and supplemented and the Public Securities Short-Term Interest Rate Act, being Sections 6-18-1 through 6-18-16, inclusive, NMSA 1978, as amended and supplemented.

"Additional Bonds and PPRF Secured Obligations" means any Bonds of the NMFA authorized and issued under the Indenture and any PPRF Secured Obligations secured by the lien of the Indenture in compliance therewith, except for the Initial 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 PPRF Secured Obligations and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless such loan or security is identified as an Additional Pledged Loan in a Supplemental Indenture or Pledge Notification or the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture. Additional Pledged Loans do not include loans identified as Additional Senior Pledged Loans.

"Additional Pledged Revenues" means any additional revenues received by the NMFA and designated as part of the Trust Estate pursuant to the Indenture or pursuant to a Supplemental Indenture or Pledge Notification. Additional Pledged Revenues are not revenues attributable to Additional Pledged Loans.

"Additional Senior Pledged Loans" means additional pledged loans at any time pledged pursuant to the Senior Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the Debt Service payable on all Bonds Outstanding or to be Outstanding (less capitalized interest and principal payable on any Subordinated Bond Anticipation Obligations), and any Security Instrument Repayment Obligations for such Bond Fund Year.

"Agreement" or "Agreements" means, as the case may be, one or more Loan 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 Indenture.

"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.

"Agreement Revenues" means amounts received or earned by the NMFA from or attributable to the Agreements. Agreement Revenues does not include amounts received from Additional Pledged Loans.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the excludability, if any, from gross income for federal income tax purposes of interest on the 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 PERCENTAGE
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

For purposes of calculating Assumed Repayments of Loans and Additional Pledged Loans for a Series of Bonds for which there are Uncommitted Proceeds, and for purposes of calculating Assumed Repayments of PPRF Secured Obligations, the Assumed Repayments of Loans and Additional Pledged Loans in the amount of the Uncommitted Proceeds and PPRF Secured Obligations will be treated as if they were Category IV Loans and Additional Pledged Loans.

"Authorized Amount" means, with respect to a Commercial Paper Program, the maximum principal amount of commercial paper which is then authorized by the NMFA to be outstanding at any one time pursuant to such Commercial Paper Program.

"Authorized Denominations" with respect to any Series of Bonds issued under the Indenture, has the meaning specified in the related Supplemental Indenture.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary, the Executive Director, the Chief Operating Officer, the Chief Financial Officer, or the 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 document; (ii) in the case of a Governmental Unit, means the person or persons authorized by law, resolution or ordinance of the Governmental Unit to perform any act or sign 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.

"Balloon Bonds" means Bonds (and/or Security Instrument Repayment Obligations relating thereto) other than Bonds which mature within one year from the date of issuance thereof, 25% or more of the Principal Installments on which, during any period of twelve consecutive months (a) are due or (b) at the option of the Owner thereof may be redeemed.

"Bond Anticipation Obligations" means notes, lines of credit or other obligations issued or incurred by the NMFA pursuant to the Indenture in advance of the permanent financing of the NMFA for a Project or in connection with any other purposes of the NMFA.

"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 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 ending on June 15 of each year, except that the first Bond Year will commence on the date of initial delivery of the Initial Bonds and will end on June 15, 2005.

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

"Bonds" means all Bonds, Bond Anticipation Obligations, notes, commercial paper or other obligations (other than PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations) authorized by, issued under and secured by the Indenture, including the Initial Bonds and any Additional Bonds.

"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.

"Capital Appreciation Bonds" means Bonds, the interest on which (a) is compounded and accumulated at the rates and on the dates set forth in the Supplemental Indenture authorizing the issuance of such Bonds and designating them as Capital Appreciation Bonds, and (b) is payable upon maturity or redemption of such Bonds.

"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 or PPRF Secured Obligations expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year or Interest Rate Swaps to be executed, 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 or Additional Pledged Revenues 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 Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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;

(C) the earnings on the Bond Fund and the Debt Service Reserve Fund for each such Bond Fund Year; and

(D) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Instrument Repayment Obligations reasonably expected to be Outstanding;

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

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

(i) the Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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 a year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans will be included in calculating the ratio described above;

(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; and

(iv) earnings on the Bond Fund will be assumed to equal the greatest amounts from any consecutive 12 months of the immediately preceding 24 months.

"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 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 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 PPRF Secured Obligations, 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 fully 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.

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

"Commercial Paper Program" means commercial paper obligations with maturities of not more than two hundred seventy (270) days from the dates of issuance thereof which are issued and reissued by the NMFA from time to time pursuant to the Indenture and are outstanding up to an Authorized Amount.

"Covenant Default" with respect to any Loan Agreement, Securities or Additional Pledged Loan means any default or event of default under the Indenture other than (i) a default in payment of principal or interest under the Indenture; (ii) a rendering of the obligor, unable to perform its obligations under the Indenture; or (iii) a bankruptcy, insolvency or similar proceeding with respect to the obligor under the Indenture.

"Cross-over Date" means with respect to Cross-over Refunding Bonds the date on which the Principal portion of the related Cross-over Refunded Bonds is to be paid or redeemed from the proceeds of such Cross-over Refunding Bonds.

"Cross-over Refunded Bonds" means Bonds or other obligations refunded by Cross-over Refunding Bonds.

"Cross-over Refunding Bonds" means Bonds issued for the purpose of refunding Bonds or other obligations if the proceeds of such Cross-over Refunding Bonds are irrevocably deposited in escrow to secure the payment on an applicable redemption date or maturity date of the Cross-over Refunded Bonds (subject to possible use to pay Principal of the Cross-over Refunding Bonds under certain circumstances) and the earnings on such escrow deposit are required to be applied to pay interest on the Cross-over Refunding Bonds until the Cross-over Date.

"Current Interest Bonds" means Bonds not constituting Capital Appreciation Bonds. Interest on Current Interest Bonds will be payable periodically on the Interest Payment Dates provided therefor in a Supplemental Indenture.

"Debt Service" means, for any particular Bond Fund Year and for any Series of Bonds, any PPRF Secured Obligations, and any Security Instrument Repayment Obligations, an amount equal to the sum of (a) all interest payable during such Bond Fund Year on such Series of Bonds, any PPRF Secured Obligations and any Security Instrument Repayment Obligations plus (b) the Principal Installments, if any, payable during such Bond Fund Years on such Series of Bonds (other than Subordinated Bond Anticipation Obligations) any PPRF Secured Obligations and any Security Instrument Repayment Obligations; provided, however for purposes of the Indenture and for purposes of preparing a Cash Flow Statement,

(1) when calculating interest payable during such Bond Fund Year for any Series of Variable Rate Bonds (for which there is no Interest Rate Swap) or Security Instrument Repayment Obligations or any PPRF Secured Obligations bearing interest at a variable rate which cannot be ascertained for any particular Bond Fund Year, it will be assumed that such Series of Variable Rate Bonds or related Security Instrument Repayment Obligations or any PPRF Secured Obligations will bear interest at such market rate of interest applicable to such Series of Variable Rate Bonds or related Security Instrument Repayment Obligations or any PPRF Secured Obligations as are established for this purpose in the opinion of the NMFA's financial advisor, underwriter or similar agent (which market rate of interest may be based upon a recognized comparable market index, an average of interest rates for prior years or otherwise, so long as such estimates are based upon the then-current market conditions);

(2) when calculating interest payable during such Bond Fund Year for any Series of Variable Rate Bonds for which an Interest Rate Swap will be in effect, pursuant to which, the NMFA has agreed to pay a fixed rate of interest and the SWAP Counterparty has agreed to pay a variable rate of interest, which rate an Authorized Officer of the NMFA has certified in a written certificate of the NMFA approximates or is intended to approximate the variable rate payable on such Series of Variable Rate Bonds, such Series of Variable Rate Bonds will be deemed to bear interest at the fixed rate provided in such Interest Rate Swap; provided that such fixed rate may be utilized only so long as such Interest Rate Swap is contracted to remain in full force and effect;

(3) when calculating interest payable during such Bond Fund Year for any Series of Bonds which are issued with a fixed interest rate and with respect to which an Interest Rate Swap is in effect pursuant to which the NMFA has agreed to pay a variable rate of interest and the SWAP Counterparty has agreed to pay a fixed rate of interest, which rate an Authorized Officer of the NMFA has certified in a written certificate of the NMFA approximates or is intended to approximate the fixed rate payable on such Series of Bonds, such Series of Bonds will be deemed to bear interest at such market rate as will be established for this purpose, in the opinion of the NMFA's financial advisor, underwriter or similar agent (which market rate of interest may be based upon a recognized comparable market index, an average of interest rates for prior years or otherwise, so long as such estimates are based upon the then-current market conditions); provided that such variable rate will be utilized only so long as such Interest Rate Swap is contracted to remain in full force and effect;

(4) when calculating the Principal Installments payable during such Bond Fund Year on any Series of Balloon Bonds, there will be treated as payable in such Bond Fund Year the amount of Principal Installments which would have been payable during such Bond Fund Year had the Principal of each Series

of Balloon Bonds Outstanding and the related Security Instrument Repayment Obligations then Outstanding (or arising therefrom) been amortized, from their date of issuance over a period of 25 years, on a level debt service basis at an interest rate equal to the rate borne by such Balloon Bonds on the date of calculation, provided that if the date of calculation is within twelve months before the actual maturity of such Balloon Bonds or Security Instrument Repayment Obligations, the full amount of Principal payable at maturity will be included in such calculation;

(5) when calculating principal and interest payable during such Bond Fund Year with respect to any Commercial Paper Program, "Debt Service" means an amount equal to the sum of all principal and interest payments that would be payable during such Bond Fund Year assuming that the Authorized Amount of such Commercial Paper Program is amortized on a level debt service basis over a period of 25 years beginning on the date of calculation or, if later, the last day of the period during which obligations can be issued under such Commercial Paper Program, and bearing interest at the maximum interest rate applicable to such Commercial Paper Program;

provided, however, that there will be excluded from Debt Service (x) interest on Bonds (including Cross-over Refunding Bonds or Cross-over Refunded Bonds) to the extent that Escrowed Interest or capitalized interest is available to pay such interest, (y) Principal on Cross-over Refunded Bonds to the extent that the proceeds of Cross-over Refunding Bonds are on deposit in an irrevocable escrow, and such proceeds or the earnings thereon are required to be applied to pay such Principal (subject to the possible use to pay the Principal of the Cross-over Refunding Bonds under certain circumstances) and such amounts so required to be applied are sufficient to pay such Principal, and (z) Security Instrument Repayment Obligations to the extent that payments on Pledged Bonds relating to such Security Instrument Repayment Obligations satisfy the NMFA's obligation to pay such Security Instrument Repayment Obligations.

"Debt Service Fund" means the fund by that name established by the Indenture to be held by the Trustee and each Account created therein.

"Debt Service Reserve Fund" means the fund by that name created in the Indenture to be held by the Trustee and administered pursuant to the Indenture and each Account created therein.

"Debt Service Reserve Requirement" means with respect to each Series of Bonds issued pursuant to the Indenture, unless otherwise provided in the related Supplemental Indenture, an amount equal to the least of (i) 10% of the proceeds of such Series of Bonds determined on the basis of original principal amount (unless original issue premium or original issue discount exceeds 2% of original principal, then determined on the basis of initial purchase price to the public), (ii) the maximum annual Debt Service during any Bond Fund Year for such Series of Bonds, and (iii) 125% of the average annual Debt Service for such Series of Bonds; provided, however, that in the event any Series of Additional Bonds is issued to refund only a portion and not all of the then Outstanding Bonds of any other Series of Bonds issued pursuant to the Indenture (the "Prior Bonds"), then the portion of such Series of Prior Bonds that remain Outstanding immediately after the issuance of such Additional Bonds and the portion of such Additional Bonds that is allocable to the refunding of such Series of Prior Bonds may be combined and treated as a single Series for the purpose of determining the Debt Service Reserve Requirement relating to such combined Series and the resulting requirement will be allocated among the two Series pro rata based upon the total principal amount remaining Outstanding for each Series. The Debt Service Reserve Requirement may be funded entirely or in part by one or more Reserve Instruments as provided in the Indenture or, if provided in the related Supplemental Indenture, may be accumulated over time. Each Account of the Debt Service Reserve Fund will only be used with respect to the related Series of Bonds.

"Escrowed Interest" means amounts irrevocably deposited in escrow in connection with the issuance of Additional Bonds for refunding purposes or Cross-over Refunding Bonds secured by such amounts or earnings on such amounts which are required to be applied to pay interest on such Cross-over Refunding Bonds or the related Cross-over Refunded Bonds.

"Event of Default" means with respect to any default or event of default under the Indenture any occurrence or event specified in and defined by the Indenture.

“Expense Fund” means the Fund by that name established by the Indenture to be held by the Trustee.

“Fitch” means Fitch Ratings.

“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, the Bond Fund and the Debt Service Reserve Fund and the Accounts created therein.

“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 the NMFA and any “qualified entity” under the Act which has executed and delivered to the NMFA a Loan Agreement or Securities for the purpose of financing all or a portion of a Project under the Indenture.

“Indenture” means this Subordinated General Indenture of Trust and Pledge and all Supplemental Indentures thereto.

“Initial Bonds” means the NMFA’s $50,395,000 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and $8,660,000 Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D.

“Interest Component” has the meaning given in the Indenture.

“Interest Payment Date,” with respect to each Series of Bonds and PPRF Secured Obligations, has the meaning set forth in the related Supplemental Indenture.

“Interest Rate Swap” means an agreement between the NMFA or the Trustee (at the written direction of the NMFA) and a SWAP Counterparty providing for an interest rate cap, floor or swap with respect to any Bonds.

“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.

“Moody’s” means Moody’s Investors Service, Inc.

“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 under the Indenture.

"Outstanding" or "Bonds outstanding" means 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 is 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 has been given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

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

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

"Outstanding" includes all Bonds the principal and/or interest on which have been paid by any bond insurer pursuant to municipal bond insurance policy.

"PPRF Revenues" means collectively, the NMFA Portion of the Governmental Gross Receipts Tax and the revenues from the Additional Senior Pledged Loans, which amounts are to be deposited to the revenue fund created under the Senior Indenture.

"PPRF Secured Obligations" means any bond, note or other obligation identified in a Supplemental Indenture or Pledge Notification as a PPRF Secured Obligation under the Indenture and secured in accordance with the provisions of the Indenture. PPRF Secured Obligations are not "Bonds" as defined in the Indenture.

"Paying Agent" means the Trustee or any successor or additional paying agent appointed pursuant to the Indenture.

"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 or the authorizing document for such Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Debt Service Reserve 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 or 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 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") rated AAA by Standard & Poor's and Aaa by *Moody's 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 receive fees for investment advisory or other services to such fund;

(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 and which matures not more than 270 days after the date of purchase;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in the highest long-term rating category 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” 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 and, if the amounts to be invested are in the Revenue Fund, such agreement must be approved in writing prior to its acquisition by each bond insurer then insuring any Series of Bonds; provided further, if the amounts to be invested are in the Bond Fund and relate to a Series of Bonds that have been or are then being insured by a bond insurer, such agreement must be approved in writing prior to its acquisition by the bond insurer then insuring such Series of Bonds;

(k) Investment contracts with providers the long term, unsecured debt obligations of which are rated at least “Aaa” by the Rating Agencies and, if the amounts to be invested are in the Revenue Fund, such agreement must be approved in writing prior to its acquisition by each bond insurer then insuring any Series of Bonds; provided further, if the amounts to be invested are in the Bonds Fund and relate to a Series of Bonds that have been or are then being insured by a bond insurer, such agreement must be approved in writing prior to its acquisition by the bond insurer then insuring such Series of Bonds; and

(l) The State Treasurer's short-term investment fund created pursuant to Section 6-10-10.1, NMSA 1978, maintained and invested by the State Treasurer.

“Pledge Notification” means a written notice, executed by an Authorized Officer and delivered to the Trustee, (i)(a) pledging one or more Additional Pledged Loans or (b) identifying loans or securities or obligations to be funded from Uncommitted Proceeds and designating such loans or securities as “Loans” under the Indenture, (ii) describing the Project financed or to be financed with the Additional Pledged Loan or the loan or security to be funded from Uncommitted Proceeds, as appropriate, and (iii) 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 the loan or security to be funded from Uncommitted Proceeds, as appropriate.

“Pledged Bonds” means any Bonds that have been (i) pledged or in which any interest has otherwise been granted to a Security Instrument Issuer as collateral security for Security Instrument Repayment Obligations or (ii) purchased and held by a Security Instrument Issuer pursuant to a Security Instrument.

“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” means (a) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest), except as used in connection with the authorization and issuance of Bonds and with the order of priority of payment of Bonds after an Event of Default, in which case “Principal” means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest), and (b) with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity.

“Principal Component” has the meaning given in the Indenture.

“Principal Installment” means, as of any date of calculation, (a) with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, the Principal amount of Bonds of such Series due on a certain future date, and (b) with respect to any Security Instrument Repayment Obligations, the principal amount of such Security Interest Repayment Obligations due on a certain future date.

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

"Program Costs" means the fees and expenses payable to the Trustee, any Paying Agent, any Remarketing Agent, any Broker-Dealer, any Auction Agent and any other agent consultant engaged to carry out the purposes of the NMFA and the NMFA and Security Instrument Costs.

"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 or refinancing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture or a Pledge Notification.

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

"Put Bond" means any Bond that is part of a Series of Bonds subject to purchase by the NMFA, its agent or a third party from the Owner of the Bond pursuant to provisions of the Supplemental Indenture authorizing the issuance of the Bond.

"Rating Agencies" means Moody's, Fitch and S&P, or any of their successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds or PPRF Secured Obligations. For purposes of the Cash Flow Statement, however, "Rating Agencies" means Moody's Investors Service, Inc. and Fitch Ratings or their successors and assigns; provided that, if more than one such Rating Agency shall be categorizing Loans and Additional Pledged Loans, for purposes of assigning a category, "Rating Agencies" shall refer to the Rating Agency assigning the lower of the categorizations.

"Rebate Calculation Date" means, with respect to each Series of Bonds (other than Taxable 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.

"Regular Record Date" means, unless otherwise provided in a Supplemental Indenture, with respect to the Bonds, 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).

"Registered Owner" or "Owner" or "Bond holder" or "holder" means (i) when used with respect to the Bonds the person or persons in whose name or names a Bond is registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture and (ii) when used with respect to the PPRF Secured Obligations the registered owners or other holders thereof (if not registered).

"Reimbursement Bonds" means Bonds issued for the purpose of reimbursing the NMFA for Projects financed with cash advanced from the Public Project Revolving Fund.

"Remarketing Agent" means a remarketing agent or commercial paper dealer appointed by the NMFA pursuant to a Supplemental Indenture.

"Reserve Instrument" means a device or instrument issued by a Reserve Instrument Provider to satisfy all or any portion of the Debt Service Reserve Requirement applicable to a Series of Bonds. The term "Reserve

Instrument" includes, by way of example and not of limitation, letters of credit, bond insurance policies, surety bonds, standby bond purchase agreements, lines of credit and other devices.

"Reserve Instrument Agreement" means any agreement entered into by the NMFA and a Reserve Instrument Provider pursuant to a Supplemental Indenture (including the applicable portions of a Supplemental Indenture) and providing for the issuance by such Reserve Instrument Provider of a Reserve Instrument.

"Reserve Instrument Costs" means all fees, premiums, expenses and similar costs, other than Reserve Instrument Repayment Obligations, required to be paid to a Reserve Instrument Provider pursuant to a Reserve Instrument Agreement. Each Reserve Instrument Agreement will specify the fees, premiums, expenses and costs constituting Reserve Instrument Costs.

"Reserve Instrument Coverage" means, as of any date of calculation, the aggregate amount available to be paid to the Trustee pursuant to the Indenture under all Reserve Instruments.

"Reserve Instrument Fund" means the fund by that name created in the Indenture to be held by the Trustee and administered pursuant to the Indenture.

"Reserve Instrument Limit" means, as of any date of calculation and with respect to any Reserve Instrument, the maximum aggregate amount available to be paid under such Reserve Instrument into the Debt Service Reserve Fund assuming for purposes of such calculation that the amount initially available under each Reserve Instrument has not been reduced or that the amount initially available under each Reserve Instrument has only been reduced as a result of the payment of principal of the applicable Series of Bonds.

"Reserve Instrument Provider" means any bank, savings and loan association, savings bank, thrift institution, credit union, insurance company, surety company or other institution issuing a Reserve Instrument.

"Reserve Instrument Repayment Obligations" means, as of any date of calculation and with respect to any Reserve Instrument Agreement, those outstanding amounts payable by the NMFA under such Reserve Instrument Agreement to repay the Reserve Instrument Provider for payments previously made by it pursuant to a Reserve Instrument. There will not be included in the calculation of Reserve Instrument Repayment Obligations any Reserve Instrument Costs.

"Revenue Fund" means the Subordinated 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.

"S&P" means Standard & Poor's Ratings Group.

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

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

"Security Instrument" means an instrument or other device issued by a Security Instrument Issuer to pay, or to provide security or liquidity for, a Series of Bonds. The term "Security Instrument" includes, by way of example and not of limitation, letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit and other security instruments and credit enhancement or liquidity devices; provided, however, that no such device or instrument is a "Security Instrument" for purposes of the Indenture unless specifically so designated in a Supplemental Indenture authorizing the use of such device or instrument.

"Security Instrument Agreement" means any agreement entered into by the NMFA and a Security Instrument Issuer pursuant to a Supplemental Indenture and/or the applicable portions of a Supplemental Indenture providing for the issuance by such Security Instrument Issuer of a Security Instrument.

"Security Instrument Costs" means, with respect to any Security Instrument, all fees, premiums, expenses and similar costs, other than Security Instrument Repayment Obligations, required to be paid to a Security Instrument Issuer pursuant to a Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument. Such Security Instrument Agreement or Supplemental Indenture will specify any fees, premiums, expenses and costs constituting Security Instrument Costs.

"Security Instrument Issuer" means any bank or other financial institution, insurance company, surety company or other institution issuing a Security Instrument.

"Security Instrument Repayment Obligations" means, as of any date of calculation and with respect to any Security Instrument Agreement, any outstanding amounts payable by the NMFA under the Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument to repay the Security Instrument Issuer for payments previously or concurrently made by the Security Instrument Issuer pursuant to a Security Instrument. There will not be included in the calculation of the amount of Security Instrument Repayment Obligations any Security Instrument Costs. Each Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument will specify any amounts payable under it which, when outstanding, will constitute Security Instrument Repayment Obligations and will specify the portions of any such amounts that are allocable as principal of and as interest on such Security Instrument Repayment Obligations.

"Senior Bonds" means the bonds from time to time issued under the Senior Indenture.

"Senior Indenture" means the General Indenture of Trust and Pledge dated as of June 1, 1995 (as amended and supplemented from time to time), between the NMFA and Bank of Albuquerque, N.A. as trustee.

"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.

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

"State" means the State of New Mexico.

"Subordinate Lien PPRF Revenues" means (i) the PPRF Revenues less the portion of the PPRF Revenues which are used during any applicable period to satisfy the obligations of the NMFA under the Senior Indenture (or required by the terms of the Senior Indenture to be retained by the Trustee under the Indenture) plus (ii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any.

"Subordinated Bond Anticipation Obligations" means Bond Anticipation Obligations, the Principal Installments on which have been subordinated pursuant to the Indenture.

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

"SWAP Counterparty" means a member of the International Swap and Derivatives Association, Inc. which is (i) rated in one of the three top rating categories by at least one of the Rating Agencies and (ii) meeting the requirements (including the rating requirements, if any) of applicable laws of the State. The documentation with respect to each Interest Rate Swap will require the SWAP Counterparty to (i) maintain its rating in one of the three top rating categories by at least one of the Rating Agencies (or to collateralize its obligations to the satisfaction of the Rating Agencies rating the related Bonds) and (ii) meet the requirements of State law (including the rating requirements, if any).

"SWAP Payments" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the SWAP Counterparty by the Trustee on behalf of the NMFA. SWAP Payments do not include any Termination Payments.

"SWAP Receipts" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Trustee for the account of the NMFA by the SWAP Counterparty. SWAP Receipts do not include amounts received with respect to the early termination or modification of an Interest Rate Swap.

"Taxable Bonds" means all Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

"Tax-Exempt Bonds" means all Bonds other than the Taxable Bonds.

"Termination Payments" means the amount payable to the SWAP Counterparty by the Trustee on behalf of the NMFA with respect to the early termination or modification of an Interest Rate Swap. Termination Payments will be payable from and secured by Subordinate Lien PPRF Revenues after payment of amounts then due pursuant to the Indenture.

"Trust Estate" means the property held in trust by or pledged to 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.

"Uncommitted Proceeds" means that portion of the proceeds of a Series of Bonds for which no Loans have been made at the time of issuance of such Series of Bonds.

"Variable Rate Bonds" means, as of any date of calculation, Bonds the terms of which on such date of calculation are such that interest thereon for any future period of time is expressed to be calculated at a rate which is not susceptible to a precise determination.

The Bonds and PPRF Secured Obligations

Execution; Limited Obligation.

The Bonds will be executed on behalf of the NMFA with the manual or official facsimile signature of an Authorized Officer, countersigned with the manual or official facsimile signature of its Secretary and impressed or imprinted thereon the official seal or facsimile thereof of the NMFA. In case any officer, the facsimile of whose signature appears on the Bonds, ceases to be such officer before the delivery of such Bonds, such facsimile will nevertheless be valid and sufficient for all purposes, the same as if he or she had remained in office until delivery. The Bonds, together with interest thereon, will be limited obligations of the NMFA payable, on a parity with the PPRF Secured Obligations (as to the amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments solely from the Trust Estate.

The Bonds will be a valid claim of the respective Registered Owners thereof only against the Trust Estate and the NMFA pledges and assigns the same, FIRST, for the equal and ratable payment of the Bonds, the PPRF Secured Obligations (as to amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments, and, SECOND, for the equal and ratable payment of the Reserve Instrument Repayment Obligations. The Trust Estate will be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, PPRF Secured Obligations as to the amounts deposited to the Revenue Fund, the Security Instrument Repayment Obligations, the SWAP Payments and the Reserve Instrument Repayment Obligations, except as may be otherwise expressly authorized in the Indenture (including the release of Subordinate Lien PPRF Revenues free and clear of the lien of the Indenture upon satisfaction of the payments then due and payable, as provided in the Indenture and the release of Loans, Additional Pledged Loans and Additional Pledged Revenues as provided in the Indenture.) The lien and pledge of the Subordinate Lien PPRF Revenues is subject to the prior lien of the Senior Indenture on the PPRF Revenues in that the PPRF Revenues will first be used to satisfy the requirements of the Senior Indenture and upon the release from the lien of the Senior Indenture the PPRF Revenues will immediately be subject to the lien of the Indenture. The Subordinate Lien PPRF Revenues (including the PPRF

Revenues following the release thereof each year from the lien of the Senior Indenture) and the other amounts pledged under the Indenture are not subject to the lien of the Senior Indenture.

The Bonds, the Security Instrument Repayment Obligations and SWAP Payments are special limited obligations of the NMFA payable solely from the Trust Estate and will be a valid claim of the respective Owners thereof only against the Revenue Fund, the Bond Fund, the Debt Service Reserve Fund, the Debt Service Fund, the Agreement Reserve Fund (except as limited by the Indenture) and other moneys held by the Trustee under the Indenture (except the Rebate Fund), and the Bonds, the Security Instrument Repayment Obligations and SWAP Payments will not constitute or create a general obligation or other indebtedness of the State or (except as expressly provided in an Agreement or Securities) any Governmental Unit within the meaning of any constitutional or statutory debt limitation. The obligation of the NMFA under the Indenture with respect to the PPRF Secured Obligations is a special limited obligation of the NMFA payable solely from the amounts deposited or to be deposited to the Revenue Fund and will be a valid claim of the respective owners of and fiduciaries for the PPRF Secured Obligations only against the Revenue Fund, and the PPRF Secured Obligations will 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 obligation of the NMFA under the Indenture with respect to the Reserve Instrument Repayment Obligations is a special limited obligation of the NMFA payable solely from the Trust Estate after payment of the Bonds, PPRF Secured Obligations (as to the amounts deposited in the Revenue Fund), Security Instrument Repayment Obligations and SWAP Payments and will be a valid claim of the Reserve Instrument Providers against the Trust Estate and will not constitute or give rise to a general obligation or other indebtedness of the State, the NMFA or any other Governmental Unit within the meaning of any constitutional or statutory debt limitation.

No provision of the Bonds, the PPRF Secured Obligations, the Security Instrument Repayment Obligations, the SWAP Payments or Reserve Instrument Repayment Obligation, 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 obligation to pay the Principal of and interest and premium, if any, on the Bonds, the PPRF Secured Obligations, the Security Instrument Repayment Obligations, the SWAP Payments and the Reserve Instrument Repayment Obligations will 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, the NMFA or any political subdivision of the State.

The provisions of the Indenture relating to the execution of Bonds may be changed as they apply to the Bonds of any Series by the Supplemental Indenture authorizing such Series of Bonds.

<u>Registration and Exchange of Bonds; Persons Treated as Owners</u>.

Books for the registration and for the transfer of the Bonds as provided in the Indenture will be kept by the Trustee which is constituted and appointed by the Indenture as the Bond Registrar with respect to the Bonds, provided, however, that the NMFA may by Supplemental Indenture select a party other than the Trustee to act as Bond Registrar with respect to the Series of Bonds issued under said Supplemental Indenture. Upon the occurrence of an Event of Default, which would require any Security Instrument Issuer to make a payment under a Security Instrument Agreement, the Bond Registrar will make such registration books available to the Security Instrument Issuer. 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 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, 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 provided in the Indenture. 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.

In each case 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.

<u>Nonpresentment of Bonds</u>.

In the event that any Bond is not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond has been 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 ceases, determines and is completely discharged, and it is 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 thereafter is 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. The obligation of the Trustee under the Indenture to pay any such amounts to the NMFA will be subject to any provisions of law applicable to the Trustee providing other requirements for disposition of unclaimed property.

<u>PPRF Secured Obligations</u>.

The NMFA may secure PPRF Secured Obligations pursuant to a Supplemental Indenture entered into with the Trustee pursuant to the terms of the Indenture. No bond or other obligations will be considered a PPRF Secured Obligation under the Indenture for any purpose or entitled to any security or benefit under the Indenture, unless specifically identified as such in a Supplemental Indenture. Each PPRF Secured Obligation will contain a provision substantially as follows:

> "This Bond is secured by the New Mexico Finance Authority (the "NMFA") as a PPRF Secured Obligation (as defined in the referenced Indenture) under the Subordinated General Indenture of Trust and Pledge (the "Indenture") between the NMFA and Bank of Albuquerque N.A. (the "Trustee"), as trustee dated as of March 1, 2005 and as provided in the _____________ Supplemental Indenture dated as of _________, _____ (the "Supplemental Indenture") and is entitled to the benefits and is subject to all of the terms and conditions of the Indenture and Supplemental Indenture (as the same may be amended or modified from time to time). The

obligations of the NMFA under the Indenture are special limited obligations payable solely from and to the extent of the sources set forth in the Indenture."

Prior to the execution by the Trustee of a Supplemental Indenture relating to any PPRF Secured Obligation or Obligations, there will have been filed with the Trustee:

(a) a copy of the Indenture (to the extent not theretofore so filed) and the related Supplemental Indenture;

(b) a copy, certified by an Authorized Officer of the NMFA, of the proceedings of the NMFA approving the execution and delivery of the PPRF Secured Obligations and the related Supplemental Indenture, together with a certificate, dated as of the date of execution of such Supplemental Indenture, of an Authorized Officer of the NMFA that such proceedings are still in force and effect without amendments except as shown in such proceedings; and

(c) a certificate of the NMFA to the effect that the Legislature of the State has, to the extent required by law, approved each Project designated for financing under such Supplemental Indenture.

The paying agent for each PPRF Secured Obligation will use its best efforts to notify the Trustee, at least five business days prior to each Interest Payment Date or principal payment date for the PPRF Secured Obligations, if such paying agent has determined that it will not have sufficient moneys available for the payment of amounts due with respect to the PPRF Secured Obligations.

Issuance of Additional Bonds and PPRF Secured Obligations and Additional Senior Bonds.

(a) No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Trust Estate for the payment of the Bonds, PPRF Secured Obligations, the Security Instrument Agreements and Interest Rate Swaps authorized in the Indenture, may be created or incurred without the prior written consent of 100% of the Owners of the Outstanding Bonds, owners of PPRF Secured Obligations and Security Instrument Issuers and SWAP Counterparties; provided however, that additional Senior Bonds or other indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of PPRF Revenues under the Indenture may be issued in accordance with the requirements of the Senior Indenture.

(b) In addition, except for the Initial Bonds, no Additional Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds, the PPRF Secured Obligations, Securities Instrument Repayment Obligations and SWAP Payments authorized in the Indenture out of the Trust Estate may be issued, created or incurred, unless the following requirements have been met:

(i) the NMFA delivers to the Trustee a Cash Flow Statement taking into account the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes and taking into account the execution and delivery of any related Security Instrument Agreement and Interest Rate Swap;

(ii) all payments required by the Indenture to be made into the Bond Fund must have been made in full;

(iii) the proceeds of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes must be used (x) 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), (y) to make Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance) or (z) to finance other projects approved by the NMFA; and

(iv) no Event of Default has occurred and is continuing under the Indenture. The foregoing provisions of this paragraph (iv) will not preclude the issuance of Additional Bonds, PPRF Secured

Obligations or other indebtedness, bonds or notes if (x) the issuance of such Additional Bonds and PPRF Secured Obligations or other indebtedness, bonds or notes otherwise complies with the provisions of the Indenture and (y) such Event of Default will cease to continue upon the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes and the application of the proceeds thereof.

(c) There must be on deposit in each Account of the Debt Service Reserve Fund (taking into account any Reserve Instrument coverage) the full amount required to be accumulated therein at the time of issuance of the Additional Bonds.

The requirements above 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 and outstanding PPRF Secured Obligations being lowered.

Covenant Against Creating or Permitting Liens.

Except for (A) the pledge of the PPRF Revenues pursuant to the Senior Indenture and (B) the pledge of the Trust Estate to secure payment of the Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments, and Reserve Instrument Repayment Obligations under the Indenture, 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, the PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments and (ii) Subordinate Lien PPRF Revenues not needed for payments under the Indenture in any Bond Fund Year may be released to the NMFA free and clear of the lien of the Indenture as provided in the Indenture.

Open Market Purchases of Bonds

Purchases of Outstanding Bonds on the open market may be made by the NMFA at public or private sale as, when and at such prices as the NMFA may in its discretion determine. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Bond Fund for the payment of interest on such Bonds on the next following Interest Payment Date. Any Bonds so purchased will be cancelled by the Trustee and surrendered to the NMFA or destroyed and will not be reissued.

Covenants of the NMFA

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 will 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, PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Additional Pledged Loans, Security Documents and Securities; Exceptions; Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Additional Pledged Loans, Security Documents and Securities, except as specifically authorized in the Indenture in furtherance of the security for the Bonds, PPRF Secured Obligations, the Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan 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 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 and in the Senior Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 will cause a financing statement to be filed with the Secretary of State of the State, and in such other manner and at such places as may be required by law fully to protect the security interest of the Owners of the Bonds, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 are reasonably requested by the Trustee for the protection of the interests of the Bond Owners, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds, the PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations executed and delivered under the Indenture have 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 or any part thereof until the principal of and interest on the Bonds, the PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations have been paid.

Rights Under Loan Agreements, Security Documents and Securities. The Loan Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a related Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions in the Indenture, the Loan 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 under the Indenture.

Tax-Exempt Bonds. The NMFA covenants and agrees to and for the benefit of the Owners of the Tax-Exempt Bonds that the NMFA (i) will not take any action that would cause interest on the Tax-Exempt 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 Tax-Exempt Bonds in order to preserve the exemption from federal income taxation of interest on the Tax-Exempt Bonds.

State Pledge of Non-Impairment. The State has pledged to and agreed with the holders of the Bonds and the owners of PPRF Secured Obligations (as obligations 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 Bond holders and the owners of PPRF Secured Obligations or in any way impair the rights and remedies of those holders until the Bonds and the PPRF Secured Obligations 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.

Financing Loan Agreements and Securities

Restrictions. The following restrictions will apply to Loans made by the NMFA under the Indenture:

(a) The aggregate principal amount of each Loan Agreement and Security will be in whole multiples of Authorized Denomination.

(b) Each Governmental Unit will agree not to take or permit any action which would cause the respective Agreement or the related Series of Bonds to be "arbitrage bonds" under Sections 103 and 148 of the Code.

(c) Amounts disbursed from each Governmental Units' Account within the Program Fund will be used to finance the costs of the related Project and related expenditures on behalf of the Governmental Unit. All funds on deposit in a Governmental Unit's Program Account may be disbursed to fund a capital projects account held by or on behalf of the Governmental Unit, provided that the Governmental Unit establishes an account for such moneys separate from its other funds, and expressly acknowledges and agrees that its use of such moneys is subject to the requirements and restrictions set forth in the Indenture.

(d) Each Governmental Unit agrees to pay the Rebatable Arbitrage relating to its Accounts in the Program Fund, the Agreement Reserve Fund and the Debt Service Fund.

(e) At the time of execution and delivery of each Agreement, the related Governmental Unit will execute and deliver a certificate to the effect that the Governmental Unit (i) will not take any action that would cause the 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 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 Agreement in order to preserve the exemption from federal income taxation of the interest on the Bonds.

The provisions of Subsections (b), (d) and (e) above will not apply to Agreements financed with proceeds of Taxable Bonds.

Waiver of Compliance With Program Requirements. With the Approval of Bond Counsel, any of the requirements of the Indenture may be waived or modified by the Trustee and the NMFA

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 on the related Loan (the "Interest Component") 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") with respect to the related Loan, all as set forth in the related Agreement. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on or before each Loan Payment Date. The Interest Component of Loan Payments for each 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 or Pledge Notification. The Program Cost Component may be included in the interest rate applicable to a Loan.

(b) Agreement and Term. The "Term" of an Agreement will be defined in the Agreement.

(c) Agreement Payment. Agreements will provide that the related Governmental Unit will pay Loan Payments to the NMFA for remittance to Trustee. 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 the NMFA for remittance to and to be held by the Trustee.

(d) Prepayments. Agreements may contain a provision permitting the Governmental Unit to prepay the Principal Component of Loan Payments, in accordance with the provisions of the Agreement subject to any conditions set forth in the related Supplemental Indenture or Agreement. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination.

(e) Use of Reserve at Final Payment. At the time of payment in full under 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 Agreement.

Establishment and Use of Funds

Establishment of Funds; Accounts Within Funds. There are established 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 or Project;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement;

(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 (other than Agreements related to Taxable Bonds);

(g) a Subordinate Lien PPRF Revenue Fund (in the Indenture the "Revenue Fund") established as an account of the Public Project Revolving Fund;

(h) a Debt Service Reserve Fund and within such fund a separate Account for each Series of Bonds for which a Debt Service Reserve Requirement is established; and

(i) a Reserve Instrument Fund.

In addition to the foregoing, the NMFA may establish subaccounts within the Program Fund, the Agreement Reserve Fund, the Debt Service Reserve Fund, the Reserve Instrument Fund or the Debt Service Fund.

Program Fund. Except with respect to Reimbursement Bonds, proceeds of which may be deposited directly to the Public Project Revolving Fund, upon the issuance of a Series of Bonds, the Trustee will deposit the amount specified in the related Supplemental Indenture in the Program Fund and except in the case of Uncommitted Proceeds, will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement, Supplemental Indenture or Pledge Notification. Upon the issuance of a Series of Bonds for which there are Uncommitted Proceeds, the Trustee should deposit such Uncommitted Proceeds in the Program Fund until such time that the Trustee receives a Pledge Notification that identifies the Agreement or Project to which Uncommitted Proceeds are to be allocated and at such time, the Trustee will allocate such Uncommitted Proceeds to the respective Accounts within the Program Fund as provided in each Agreement, Supplemental Indenture or Pledge Notification. Disbursements from each Account within the Program Fund will be made as provided below and may be made in stages or in a single disbursement for the purpose of funding a Governmental Unit's capital projects account.

Application of Loan Payments. Pursuant to the Loan Agreements and Securities and except as otherwise provided in a Supplemental Indenture, the Loan Payments payable under the Indenture will be paid directly to the NMFA for remittance to the Trustee. Any moneys received by the Trustee directly from a Governmental Unit will be remitted to the NMFA for deposit in the NMFA debt service account or other appropriate account for the Governmental Unit or other borrower from which the Trustee received such moneys.

The Trustee will deposit all Loan Payments from the Loan Agreements and Securities immediately upon receipt thereof from the NMFA, 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 (it being anticipated that each Governmental Unit will deposit an amount at least equal to the Loan Payments falling due under the related Loan Agreement or Securities with the NMFA, which will remit that amount to the Trustee for allocation to the related Account in the Debt Service Fund).

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.

Third: to the payment of Program Costs (to the extent allocable to such Agreement).

All income earned from the investment of moneys in the respective Accounts (i) held by the NMFA and (ii) 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 NMFA 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.

At least once each year, and more frequently if required pursuant to the provisions of a Supplemental Indenture, the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account 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, as provided in the Agreement and subject to the following:

(i) 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

(ii) Any other excess will be deposited into the Revenue Fund.

Debt Service Fund. When required pursuant to the provisions of a Supplemental Indenture, the Trustee will transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay principal of, and premium, if any, and interest on the Bonds, any Security Instrument Repayment Obligations, SWAP Payments (less any SWAP Receipts) and Reserve Instrument Repayment Obligations becoming due, to the extent amounts are on deposit therein for such purpose. When any Bond is called for redemption because a Governmental Unit has made a Prepayment under its Loan Agreement or Securities, the Trustee will, on the redemption date for such Bond, transfer the amount necessary for such redemption from the related Account in the Debt Service Fund to the Bond Fund.

The Trustee will keep the Debt Service Fund and each Governmental Unit's Account therein separate and apart from all other Funds and Accounts held by it.

In the event that a subaccount of a Governmental Unit's Account within the Debt Service Fund is created for an Additional Pledged Loan, amounts representing principal of and interest on such Additional Pledged Loan will be deposited to the subaccount within the Debt Service Account and will be transferred on each payment date for such Additional Pledged Loan from the Debt Service Fund to the Revenue Fund. Amounts paid under an Additional Pledged Loan for replenishment of a related subaccount of the Agreement Reserve Fund will be deposited therein upon receipt.

Agreement Reserve Fund. The Trustee will deposit the amount, if any, set forth in a Supplemental Indenture or Pledge Notification to the Agreement Reserve Fund and from the source specified in such Supplemental Indenture or Pledge Notification and will allocate such amount to the respective Accounts as provided in each Agreement.

If the amounts on deposit in any Governmental Unit's Account of the Debt Service Fund are insufficient for payments coming due under the related Agreement on the next Loan Payment Date, 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), the Trustee will transfer to such Governmental Unit's Account in the Debt Service Fund from the related Agreement Reserve Account, an amount sufficient, together with amounts in the related Debt Service Account, to pay the Principal Component and the Interest Component due under such Agreement on such Loan Payment Date.

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 Account of the Debt Service Fund and credited against payments next coming due under the related Agreement.

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 Agreement.

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 instruments in lieu of a cash deposit to the Agreement Reserve Fund, as more fully described in the Supplemental Indenture and the Agreement.

The Trustee will keep the Agreement Reserve Fund and each Governmental Unit's Account therein separate and apart from all other Funds and Accounts held by it.

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 the related Account of the Debt Service Fund.

In the event that a subaccount of a Governmental Unit's Account within the Agreement Reserve Fund is created for an Additional Pledged Loan, such amounts will be used, in a manner similar to that described above, to secure payment of principal of and interest on such Additional Pledged Loan. In the event that amounts paid by the related Governmental Unit for the payment of principal of and interest on such Additional Pledged Loan are insufficient to make such payments on the fifth day preceding the payment date for such Additional Pledged Loan, amounts on deposit in the related subaccount of the Agreement Reserve Fund will be transferred to the subaccount within the Debt Service Fund and used toward payments on such Additional Pledged Loan on such payment date. Amounts paid under an Additional Pledged Loan for replenishment of the related subaccount of the Agreement Reserve Fund will be deposited therein upon receipt.

Bond 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 due. 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. There will also be deposited to the Bond Fund from the Debt Service Fund the amounts described in the Indenture and from the Revenue Fund the amounts described in the Indenture. 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.

The Trustee will pay out of the Bond Fund to the Security Instrument Issuers and to the SWAP Counterparties, if any, that have issued Security Instruments or Interest Rate Swaps, respectively, with respect to such Series of Bonds, an amount equal to any Security Instrument Repayment Obligations and SWAP Payments (net of SWAP Receipts) as the case may be, then due and payable to such Security Instrument Issuers or SWAP Counterparties, as applicable. Except as otherwise specified in a related Supplemental Indenture, all such Security Instrument Repayment Obligations and SWAP Payments will be paid on a parity with the payments to be made with respect to principal of and interest on the Bonds; provided that amounts paid under a Security Instrument will be applied only to pay the related Series of Bonds. If payment is so made on Pledged Bonds held for the benefit of the Security Instrument Issuer, a corresponding payment on the Security Instrument Repayment Obligation will be deemed to have been made (without requiring an additional payment by the NMFA) and the Trustee will keep its records accordingly

The NMFA authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay Debt Service on the Bonds and Security Instrument Repayment Obligations and to pay the SWAP Payments as the same become due and payable and to make said funds so withdrawn available to the Trustee and any Paying Agent for the purpose of paying said Debt Service. In the event that Debt Service on a Series of Bonds is due more frequently than Loan Payments and amounts on deposit in the Bond Fund are insufficient therefor, amounts on deposit in the Revenue Fund will be used to pay Debt Service on such Series of Bonds, and upon receipt of the Loan Payments, the Revenue Fund will be reimbursed for such payments, as directed by the NMFA. Amounts remaining on deposit in the Bond Fund at the end of the Bond Fund Year after the payment of amounts due, as described above for such Bond Fund Year, will be transferred to the Revenue Fund.

The Trustee will deposit to the Bond Fund all moneys transferred from the Debt Service Reserve Fund or from a Reserve Instrument or Instruments then in effect as provided in the Indenture.

Use of Debt Service Reserve Fund. Except as otherwise provided in the Indenture and subject to the immediately following sentence, moneys in each account in the Debt Service Reserve Fund will at all times be maintained in an amount not less than the applicable Debt Service Reserve Requirement, if any. In calculating the amount on deposit in each account in the Debt Service Reserve Fund, the amount of any Reserve Instrument Coverage will be treated as an amount on deposit in such account in the Debt Service Reserve Fund. Each Supplemental Indenture authorizing the issuance of a Series of Bonds will specify the Debt Service Reserve Requirement, if any, applicable to such Series, which amount will either be (i) deposited immediately upon the issuance and delivery of such Series from (a) proceeds from the sale thereof or from any other legally available source, or (b) by a Reserve Instrument or Instruments, or (c) any combination thereof, (ii) deposited from legally available moneys over the period of time specified therein, or (iii) deposited from any combination of (i) and (ii) above; provided however, the foregoing provisions will be subject to the requirements of any Security Instrument Issuer set forth in any Supplemental Indenture. If at any time the amount on deposit in any account of the Debt Service Reserve Fund is less than the minimum amount to be maintained therein under the Indenture, the NMFA is required, pursuant to the Indenture and the provisions of any Supplemental Indenture, to make payments totaling the amount of any such deficiency directly to the Trustee for deposit into the Debt Service Reserve Fund.

In the event of a deficiency in the Bond Fund for a Series of Bonds, the Trustee will transfer moneys on deposit in the related Account of the Debt Service Reserve Fund to the Bond Fund to make up such deficiency.

In the event funds on deposit in an account of the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund as aforementioned, and there is insufficient cash available in such account of the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such Series are in effect, the Trustee will immediately make a demand for payment on such Reserve Instruments, to the maximum extent authorized by such Reserve Instruments, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund. Thereafter, the NMFA will be obligated to reinstate the Reserve Instrument as provided in the Indenture.

No Reserve Instrument will be allowed to expire or terminate while the related Series of Bonds are Outstanding unless and until cash has been deposited into the related account of the Debt Service Reserve Fund, or a new Reserve Instrument has been issued in place of the expiring or terminating Reserve Instrument, or any combination thereof in an amount or to provide coverage, as the case may be, at least equal to the amount required to be maintained in the related account of the Debt Service Reserve Fund.

Moneys at any time on deposit in any Account of the Debt Service Reserve Fund in excess of the amount required to be maintained therein (taking into account the amount of related Reserve Instrument Coverage) will be transferred by the Trustee to the Bond Fund at least once each year.

Moneys on deposit in any Account of the Debt Service Reserve Fund will be used to make up any deficiencies in the Bond Fund only for the Series of Bonds secured by said account and any Reserve Instrument will only be drawn upon with respect to the Series of Bonds for which such Reserve Instrument was obtained.

The NMFA may, upon obtaining approving opinion of bond counsel to the effect that such transaction will not adversely affect the tax-exempt status of any outstanding Bonds, replace any amounts required to be on deposit in the Debt Service Reserve Fund with a Reserve Instrument.

Use of Reserve Instrument Fund. There will be paid into the Reserve Instrument Fund the amounts required by the Indenture and by a Supplemental Indenture to be so paid. The amounts in the Reserve Instrument Fund will, from time to time, be applied by the Trustee on behalf of the NMFA to pay the Reserve Instrument Repayment Obligations which are due and payable to any Reserve Instrument Provider under any applicable Reserve Instrument Agreement.

Use of Revenue Fund. Pursuant to the Senior Indenture, the PPRF Revenues which are not used to satisfy obligations of the NMFA under the Indenture or required by the terms thereof to be retained by the trustee under the Indenture, are to be released from the lien and pledge of the Senior Indenture on June 1 of each year (being the last day of each bond fund year under the Indenture) and the NMFA covenants and agrees that such amounts are and will be subject to the lien of the Indenture. During each Bond Fund Year, (i) all PPRF Revenues released from the lien of the Senior Indenture will be paid to the Trustee immediately upon the release thereof on June 1 of each year, (ii) all amounts received as Additional Pledged Revenues will be immediately deposited with the Trustee and (iii) all payments representing principal and interest from Additional Pledged Loans will be paid immediately upon receipt thereof by the NMFA to the Trustee, and all of the same will be accounted for and maintained by the Trustee in the Revenue Fund, which fund will be kept separate and apart from all other accounts of the Trustee and which, prior to transfer of any excess therefrom pursuant to the Indenture, will be expended and used by the Trustee only in the manner and order of priority specified below.

(a) (i) If the amounts on deposit in the Bond Fund are insufficient for payments of principal of and interest on the Bonds due on such date or if a deficiency has occurred in the Bond Fund that has not otherwise been rectified, the Trustee will immediately transfer from the Revenue Fund to the Bond Fund, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal of and interest on the Bonds due on such date and to rectify any such deficiency then still existing;

(ii) if the Trustee receives notice from the paying agent for any PPRF Secured Obligation that the amounts available for payment of principal and interest with respect to such PPRF Secured Obligation then due on such date will be insufficient or if a deficiency in the payment of any PPRF Secured Obligation has occurred that has not otherwise been rectified, the Trustee will immediately transfer from the Revenue Fund to such paying agent an amount sufficient, together with amounts otherwise available for such purpose, to pay the principal and interest then due with respect to the PPRF Secured Obligations on such date and to rectify any such deficiency then still existing; and

(iii) if the amounts on deposit in the Bond Fund are insufficient for payments then coming due on such date with respect to any Security Instrument Repayment Obligations or SWAP Payments (net of SWAP Receipts) then due pursuant to any Security Instrument Agreements or Interest Rate Swaps or if there has been a deficiency in the payment of any Security Instrument Repayment Obligations or SWAP Payments that has not been rectified, the Trustee will immediately transfer from the Revenue Fund to the Bond Fund, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the amounts due on the Security Instrument Repayment Obligations and the SWAP Payments (net of SWAP Receipts) then due on such date and to rectify any such deficiency then still existing.

The transfers required by (i), (ii) and (iii) above are to be made on a parity basis. In the event that the amounts available for transfer pursuant to (i), (ii) and (iii) above are insufficient therefor the Trustee will make such transfers ratably according to the amounts due.

(b) Subject to making the transfers set forth in Subsection (a) above, the NMFA will make the following transfers to the Trustee:

(i) To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (A) to the Accounts in the Debt Service Reserve Fund any amounts required by the Indenture and by any Supplemental Indenture to accumulate therein the applicable Debt Service Reserve Requirement with respect to each Series of Bonds at the times and in the amounts provided in the Indenture and in any Supplemental Indenture and (B) if funds have been withdrawn from an Account in the Debt Service Reserve Fund or any Account in the Debt Service Reserve Fund is at any time funded in an amount less than the applicable Debt Service Reserve Requirement, the NMFA will transfer from the Revenue Fund in such Account(s) in the Debt Service Reserve Fund in an amount sufficient to restore such Account(s) within one year with twelve (12) substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Debt Service Reserve Requirement); or a ratable portion (based on the amount to be transferred pursuant to the Indenture) of remaining amounts if less than the amount necessary; and

(ii) Equally and ratably to the Accounts of the Reserve Instrument Fund, with respect to all Reserve Instruments which are in effect and are expected to continue in effect after the end of such month, such amount from the Revenue Fund, or a ratable portion (based on the amount to be transferred pursuant to the Indenture) of the amount so remaining if less than the amount necessary, that is required to be paid, on or before the next such transfer or deposit from the Revenue Fund into the Reserve Instrument Fund, to the Reserve Instrument Provider pursuant to any Reserve Instrument Agreement, other than Reserve Instrument Costs, in order to cause the Reserve Instrument Coverage to equal the Reserve Instrument Limit within one year from any draw date under the Reserve Instrument.

(c) In the event that funds are withdrawn from an Account in the Agreement Reserve Fund, or any Account in the Agreement Reserve Fund is at any time funded in an amount less than the applicable Agreement Reserve Requirement, the NMFA will transfer for deposit in such Account(s) in the Agreement Reserve Fund sufficient Subordinate Lien PPRF Revenues, Agreement Revenues, Additional Pledged Revenues and revenues from Additional Pledged Loans in amount to restore such Account(s) within one year with twelve (12) substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Agreement Reserve Requirement); or a ratable portion of remaining Subordinate Lien PPRF Revenues, Agreement Revenues, Additional Pledged Revenues and revenues from Additional Pledged Revenues and revenues from Additional Pledged Loans if less than the amount necessary.

(d) Subject to making the foregoing transfers to the Bond Fund and to the paying agent for the PPRF Secured Obligations and to the Security Instrument Issuers and to the SWAP Providers and to the Reserve Instrument Providers, on June 16 of each year, the NMFA will be entitled to direct the Trustee in writing to release to the NMFA the balance on deposit in the Revenue Fund and the Trustee will transfer the such amount to the NMFA and the NMFA may use such balance for:

(i) deposit to the Public Project Revolving Fund as required by the Act;

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

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

(iv) for any other lawful purpose, including (A) payment of Program Costs for Bonds issued under the Indenture and similar costs for PPRF Secured Obligations, (B) replacement of reserves for Bonds issued under the Indenture or PPRF Secured Obligations, and (C) payment of Termination Payments;.

provided, however, that notwithstanding the foregoing there will be retained in the Revenue Fund an amount, after giving credit for available amounts in all accounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, sufficient to make payments of all Debt Service requirements on all Bonds, all Security Instrument Repayment Obligations, all SWAP Payments and all Reserve Instrument Repayment Obligations coming due in the then current Bond Fund Year; provided further, that once additional moneys are amounts retained in the Revenue Fund may be released from the lien of the Indenture but only to the extent of additional moneys deposited into the Bond Fund. For purposes of calculating the Debt Service on Variable Rate Bonds for purposes of the Indenture, the provisions of clauses (1), (2) and (3) of the definition of "Debt Service" in the Indenture will apply.

(e) The NMFA may, but is not obligated to, use any PPRF Revenues of the NMFA to satisfy its obligations under the Indenture.

Subordinate Lien PPRF Revenues. Additional Pledged Revenues, Revenues from Additional Pledged Loans and Agreement Revenues to be Held for All Bond Owners and Owners of PPRF Secured Obligations. All of the Subordinate Lien PPRF Revenues, Additional Pledged Revenues, revenues from Additional Pledged Loans and the Agreement Revenues will, until applied as provided in the Indenture, be held by the Trustee or the NMFA, as applicable, only for the benefit of the Owners of Bonds, Owners of PPRF Secured Obligations (as to Subordinate Lien PPRF Revenues only), Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers.

Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Trustee or the NMFA for account to any fund referred to in any provision of the Indenture will be held by the Trustee and the NMFA, as the case may be, in trust. Moneys held by the NMFA as servicer of the Agreements and the Additional Pledged Loans until paid to the Trustee will be kept separate and apart from all other accounts of the NMFA, who will hold and administer such moneys as agent for the Trustee and such moneys will at all times be subject to the lien and trust imposed by the Indenture.

Repayment to Governmental Units from Debt Service Fund. Any amounts remaining in any Governmental Unit's Debt Service Account or Agreement Reserve Account after payment in full of the principal of and premium, if any, and interest on the related Agreement, the fees, charges, and expenses of Trustee, all other amounts required to be paid under the Indenture will be paid immediately to the Governmental Unit as an overpayment of Loan Payments.

Trustee under the Indenture. The Trustee under the Indenture and the trustee under the Senior Indenture will at all times be one and the same entity.

Investment of Moneys

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established by the Indenture or (ii) by the NMFA as agent for the Trustee, will be invested by the Trustee or the NMFA, as the case may be, in Permitted Investments in accordance with the Indenture. 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 Agreement when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund, the Debt Service Reserve 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 by Article VI of 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.

Neither the NMFA nor the Trustee will 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 and PPRF Secured Obligations, the principal of and premium, if any, and interest due or to become due on the Bonds and PPRF Secured Obligations 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 Indenture, and if the NMFA has paid or has caused to be paid to (i) all Security Instrument Issuers all Security Instrument Repayment Obligations due and payable under all Security Instruments, (ii) all SWAP Counterparties all SWAP Payments due and payable under all Interest Rate Swaps, and (iii) all Reserve Instrument Providers all Reserve Instrument Repayment Obligations due and payable under all Reserve Instrument Agreements, then the estate and rights granted by the Indenture will cease, terminate 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 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 will 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.

All moneys so deposited with the Trustee (or other escrow agent) as provided in the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amounts and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee pursuant to the Indenture which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys has 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.

Notwithstanding anything in the Indenture to the contrary, all moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the 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 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 Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the 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 Issuers 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 Issuers of such Series of Bonds.

Default Provisions and Remedies of the Trustee and Owners

<u>Events of Default Defined</u>. 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 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 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 under the Indenture or otherwise; or

(c) if the NMFA for any reason is 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 Trust Estate, 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 is not 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 enacted after the effective date of the Indenture, if the claims of such creditors are or may be under any circumstances payable from the Trust Estate; 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 are 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 will not be 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 in the Indenture or any Supplemental Indenture thereto on the part of the NMFA to be performed, other than as set forth in the Indenture, 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 under the Indenture.

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, Additional Pledged Loans and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds and, as provided in the Indenture, the owners of the PPRF Secured Obligations 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 or Additional Pledged Loans (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 PPRF Secured Obligations, the Agreements, the Additional Pledged Revenues, the Additional Pledged Loans 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 Subordinate Lien PPRF Revenues, Additional Pledged Revenues, Agreement Revenues and revenues attributable to Additional Pledged Loans pledged under the Indenture or pursuant to the Agreements and any Security Documents; or

(f) terminate the provisions of the Indenture providing for NMFA collection, deposit and loan administration functions in connection with Loans and Additional Pledged Loans and cause such payments to be made directly to the Trustee.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners of the Bonds or PPRF Secured Obligations 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 of the Bonds or PPRF Secured Obligations 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 is 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 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 of the Bonds or PPRF Secured Obligations in the Indenture is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be 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 NMFA for Payments of Governmental Units. Other than in its capacity as servicer of Loans and Additional Pledged Loans, the NMFA will not have any obligation or liability to the Trustee or the Owners of the Bonds or PPRF Secured Obligations with respect to the payment when due of the Loan Payments by the Governmental Units, or with respect to the performance by the Governmental Units of the other agreements and covenants required to be performed by them contained in the Loan Agreements, Additional Pledged Loans and Securities, the related Security Documents, or in the Indenture, or with respect to the performance by the Trustee or any right or obligation required to be performed by them contained in the Indenture.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and Additional Pledged Loans and the performance of the other agreements and covenants required to be performed by it contained in the Agreements, Additional Pledged Loans and Security Documents, the Governmental Units will not have any obligation or liability to the Owners of Bonds and PPRF Secured Obligations 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, Additional Pledged Loans or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond or PPRF Secured Obligations will have 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 under the Indenture, at law or in equity, unless;

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default (in the case of the Bonds) or of the payment default or other default pursuant to the Indenture (in the case of PPRF Secured Obligations);

(b) the Owners of Bonds and PPRF Secured Obligations of not less than a majority of the aggregate principal amount of the Bonds Outstanding and PPRF Secured Obligations then outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default (in the case of the Bonds) or of the payment default or other default pursuant to the Indenture (in the case of PPRF Secured Obligations) 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 of Bonds and PPRF Secured Obligations 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 and Owners of PPRF Secured Obligations. Notwithstanding the foregoing, the Owner of any Bond and the Owners of PPRF Secured Obligations has the right, which is absolute and unconditional, to receive payment of interest on such Bond or PPRF Secured Obligation when due in accordance with the terms thereof and of the Indenture and the principal of such Bond or PPRF Secured Obligation at the stated maturity thereof 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 and PPRF Secured Obligations outstanding have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, 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 or PPRF Secured Obligations.

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 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, and after giving effect to the parity claim of PPRF Secured Obligations to amounts on deposit in the Revenue Fund, 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, and after giving effect to the parity claim of PPRF Secured Obligations to amounts on deposit in the Revenue Fund, will be applied as follows:

(a) To the payment of the Principal of, premium, if any, and interest then due and payable on the bonds as follows:

(i) Unless the principal of all Bonds has become due and payable, all such moneys will be applied:

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 is not 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 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;

Third: To be held for the payment to the persons entitled thereto as the same becomes 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.

(ii) If the principal of all the Bonds has become due 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.

(b) To the payment of all obligations then due and payable to any Security Instrument Issuers under any applicable Security Instrument Agreement.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys will be applied at such times, and from time to time, as the Trustee determines, 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 will deem 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 is not 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 under the Indenture 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 have 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, the Security Instrument Issuers 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.

Defaults Relating to PPRF Secured Obligations.

A default with respect to the PPRF Secured Obligations is not (in and of itself) an Event of Default under the Indenture and the Owners of the PPRF Secured Obligations will be limited to their right to payment from Subordinate Lien PPRF Revenues and performance by the NMFA of its covenants and agreements under the Indenture on their behalf. In the event that NMFA fails to make payment on any PPRF Secured Obligation or defaults in the due and punctual performance of any other covenant, condition or provision of the Indenture relating thereto, the Trustee may and upon the written request of the Owners of a majority of the PPRF Secured Obligations (or any fiduciary therefore) and upon receipt of indemnity to its satisfaction, will in its own name exercise any of the rights and remedies provided in the Indenture to the extent applicable to the collection and application of Subordinate Lien PPRF Revenues.

The Owners of PPRF Secured Obligations will be secured by and entitled to a parity claim on all Subordinate Lien PPRF Revenues deposited to or required to be deposited to the Revenue Fund. In the exercise of remedies under the Indenture relating to the collection and application of Subordinate Lien PPRF Revenues, the Trustee will act for the benefit of the Owners of the PPRF Secured Obligations on the same basis as for Owners of Bonds.

The Trustee

Fees, Charges and Expenses of the Trustee. The Trustee will be entitled to payment and reimbursement for reasonable fees for its services rendered under the Indenture and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. The Trustee will be entitled to payment and reimbursement for the reasonable fees and charges of the Trustee as Paying Agent and Registrar for the Bonds as provided in the Indenture. 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 foregoing advances, fees, costs and expenses incurred.

Notice to Owners if Event of Default Occurs. Except as otherwise required by the Indenture, the Trustee will give to the Owners of Bonds and PPRF Secured Obligations notice of each default under the Indenture known to the Trustee within ninety days after the occurrence thereof, unless such default has been remedied or cured before the giving of such notice; provided that, except in the case of default in the payment of principal of or premium, if any, or interest on any of the Bonds or PPRF Secured Obligations, the Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Owners. Each such notice of default will be given by the Trustee by mailing written notice thereof to all holders of Bonds and PPRF Secured Obligations then outstanding whose names appear on the list of Owners as provided in the Indenture and, if required by the Trustee, such Owners have offered the Security or indemnity required by the Indenture.

Intervention by the Trustee. In any judicial proceeding to which the NMFA or a Governmental Unit is a party and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interest of Owners of the Bonds, the Trustee may intervene on behalf of Owners and will do so if requested in writing by the Owners of a majority in the aggregate principal amount of Bonds then outstanding and, if required by the Trustee, such Owners have offered the Security or indemnity required by the Indenture.

Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, will be and become successor to the Trustee under the Indenture and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding.

Resignation by the Trustee. The Trustee and any successor to the Trustee may at any time resign from the trusts created in the Indenture by giving thirty days' written notice by registered or certified mail to the NMFA and to the owner of each Bond as shown by the list of Owners required by the Indenture to be kept by the Trustee, and such resignation will take effect only upon the appointment of a successor Trustee by the Owners or by the NMFA.

Removal of the Trustee. The Trustee may be removed at any time, by the NMFA (except during the continuance of an Event of Default) by written notice signed by the NMFA or by an instrument or concurrent instruments in writing delivered to the Trustee and to the NMFA and signed by the Owners of a majority in aggregate principal amount of Bonds then outstanding. Any removal will take effect upon the appointment of a successor Trustee.

Appointment of Successor Trustee. In case the Trustee under the Indenture resigns or is removed, or is dissolved, or is in course of dissolution or liquidation, or otherwise become incapable of acting under the Indenture, or in case it is taken under the control of any public officer or officers, or of a receiver appointed by a court, the NMFA covenants and agrees to appoint a successor Trustee. If in a proper case no appointment of a successor Trustee is made by the NMFA pursuant to the Indenture within 45 days after the Trustee gives NMFA written notice of resignation or after a vacancy in the office of the Trustee has occurred by reason of its inability to act or its removal, the Trustee, or any Bondholder may apply to any court of competent jurisdiction to appoint a successor to itself as Trustee. Said court, after such notice, if any, as such court may deem proper, thereupon may appoint a successor Trustee. Every such Trustee appointed pursuant to the Indenture will be a trust company or bank in good standing having a reported capital and surplus of not less than $50,000,000 if there be such an institution willing, qualified and able to accept the trust upon customary terms.

Concerning Any Successor Trustee. Every successor Trustee appointed under the Indenture will execute, acknowledge and deliver to its predecessor and also to the NMFA an instrument in writing accepting such appointment under the Indenture, and thereupon such successor, without any further act, deed or conveyance, will become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor will, nevertheless, on the written request of the NMFA, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor under the Indenture; and every predecessor Trustee will deliver all securities and moneys held by it as Trustee under the Indenture to its successor. Should any instrument in writing from the NMFA be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties vested by the Indenture or intended to be vested in the predecessor, any and all such instruments in writing will, on request, be executed, acknowledged and delivered by the NMFA. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Indenture, together with all other instruments provided for in the Indenture, will be filed or recorded by the successor Trustee in each recording office where the Indenture has been filed or recorded.

Supplemental Indentures, Amendments to Agreements, Amendments and Supplements to Senior Indenture

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 the Initial Obligations or Additional Bonds and PPRF Secured Obligations in accordance with 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 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 the Rating Agencies that such amendments will not result in the rating on the Bonds and PPRF Secured or any Governmental Unit or to grant additional powers or rights to the Trustee;

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred in the Indenture upon the NMFA 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 Indenture and subject to the terms and provisions contained in the Indenture, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds and PPRF Secured Obligations then outstanding 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 is 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 the Indenture permits, or is construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond issued under the Indenture, 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 or PPRF Secured Obligations over any other Bond or Bonds or PPRF Secured Obligations, or (iv) a reduction in the aggregate principal amount of the Bonds or PPRF Secured Obligations 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 and PPRF Secured Obligations 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.

Amendment of Agreements and Security Documents. The NMFA has the right to amend an Agreement, Additional Pledged Loan documents 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 in the Indenture 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 and PPRF Secured Obligations following such amendment being lower than the rating on the Bonds and PPRF Secured Obligations 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 owners of any PPRF Secured Obligations; or

(iv) to make any other change or amendment upon delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

If the NMFA or a Governmental Unit proposes 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.

Amendments and Supplements to Senior Indenture. The NMFA will be permitted to amend and supplement the provisions of the Senior Indenture as provided therein including amendments and supplements permitting the issuance of additional Senior Bonds under the Indenture, provided that without the prior written consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture and the owners of PPRF Secured Obligations, the NMFA and the Trustee will not amend or supplement the Senior Indenture to change the time for release of the PPRF Revenues from the lien of the Senor Indenture or to preclude such release as contemplated under the Indenture.

Miscellaneous

Consents, etc. of Owners. Any consent, request, direction, approval, objection or other instrument required by the Indenture to be signed and executed by the Owners may be in any number of concurrent documents and may be executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, will be sufficient for any of the purposes of the Indenture, and will be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by an affidavit of any witness to such execution.

(b) The fact of ownership of Bonds and the amount or amounts, numbers and other identification of such Bonds, and the date of holding the same, will be proved by the registration books of the Trustee maintained by the Trustee pursuant to the Indenture.

(c) The fact of ownership of PPRF Secured Obligations and the amount or amounts, numbers and other identification of such PPRF Secured Obligations, and the date of holding the same, will be proved by the registration books of the registrar for such obligations or otherwise as the NMFA may determine.

For all purposes of the Indenture and of the proceedings for the enforcement thereof, such person will be deemed to continue to be the Owner of such Bond or owner of PPRF Secured Obligations until the Trustee receives notice in writing to the contrary.

Limitation of Rights. With the exception of any rights expressly conferred in the Indenture, nothing expressed or mentioned in or to be implied from the Indenture or the Bonds or PPRF Secured Obligations is intended or is to be construed to give to any person or company other than the parties thereto, the Governmental Units and the Owners of the Bonds or owners of any PPRF Secured Obligations, any legal or equitable right, remedy or claim under or with respect to the Indenture or any covenants, conditions and provisions therein contained; the Indenture and all of the covenants, conditions and provisions thereof being intended to be and being for the sole and exclusive benefit of the parties thereto, the Governmental Units and the holders of the Bonds and PPRF Secured Obligations as provided in the Indenture.

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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 2005C-D 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 2005C-D 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 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 second quarter of 2004.

State of New Mexico
Employment by Industry Group*
Second Quarter 2004

Industry	Employment
Agriculture, Forestry, Fishing & Hunting	11,375
Mining	14,842
Utilities	5,623
Construction	53,803
Manufacturing	35,807
Wholesale Trade	22,382
Retail Trade	93,423
Transportation and Warehousing	23,310
Information	15,967
Finance & Insurance	22,690
Real Estate & Rental & Leasing	11,174
Professional & Technical Services	42,736
Management of Companies & Enterprises	5,132
Administrative & Waste Services	45,272
Educational Services	79,141
Health Care & Social Assistance	103,923
Arts, Entertainment & Recreation	18,770
Accommodation & Food Services	78,417
Other Services, Except Public Administration	21,934
Public Administration	57,686
Unclassified	659

* 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	$ 199,988	$ 216,463	$ 20,548,000	$ 20,435,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	$ 82,117	$ 84,581	$ 17,769,000	$ 18,323,000
Mining	808,323	854,455	37,767,000	38,913,000
Utilities	273,574	286,602	50,819,000	52,438,000
Construction	1,716,212	1,803,722	328,784,000	333,202,000
Manufacturing	1,840,096	1,891,782	869,682,000	897,069,000
Wholesale Trade	1,020,406	1,025,665	333,826,000	345,609,000
Retail Trade	2,291,152	2,378,935	421,659,000	432,906,000
Transportation & Warehousing	812,787	831,990	201,100,000	204,276,000
Information	649,080	646,447	226,913,000	224,476,000
Finance & Insurance	1,054,825	1,114,920	446,706,000	470,021,000
Real Estate & Rental & Leasing	355,282	315,164	83,818,000	87,349,000
Professional & Technical Services	2,525,246	2,737,239	493,242,000	501,762,000
Management of Companies & Enterprises	279,394	254,221	139,669,000	144,515,000
Administrative & Waste Services	1,161,214	1,203,415	221,102,000	228,220,000
Educational Services	228,948	244,975	84,830,000	90,576,000
Health Care & Social Assistance	2,753,057	3,008,028	554,568,000	590,538,000
Arts, Entertainment & Recreation	153,981	166,679	59,538,000	62,560,000
Accommodation & Food Services	1,033,455	1,077,372	177,062,000	184,955,000
Other Services, Except Public Administration	788,500	839,030	176,078,000	184,192,000
Government & Government Enterprises	9,439,209	9,999,033	1,113,880,000	1,163,988,000
Non Farm Private Total	$29,266,858	$30,764,255	$6,038,812,000	$6,255,890,000
TOTAL	$29,466,846	$30,980,718	$6,059,360,000	$6,276,325,000

* New wage and salary estimates for 2003 were released December 29, 2004, with revisions for 2001 and 2002.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, January 27, 2005.

State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1994-2003

	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
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, December 2004.

State of New Mexico and United States
Per Capita Personal Income
1994-2003*

	Per Capita Income			Annual % Change	
Year	New Mexico	U.S.	NM as % of U.S.	New Mexico	U.S.
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	24,101	30,580	79%	8.2%	2.4%
2002	24,730	30,795	80%	2.5%	0.7%
2003	25,502	31,459	81%	3.0%	2.1%

* Revised state personal income estimates for 2001, 2002 and 2003 were released September 28, 2004. These estimates incorporate the results of the annual revision of the national income and product accounts and newly available state-level source data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2004.

APPENDIX D

INFORMATION CONCERNING THE METRO COURT BONDS

Authorization for the Metro Court Bonds

The Metro Court Bonds are being issued under and are secured by a resolution adopted by the NMFA on March 2, 2005 (the "Metro Court Resolution"). The Bonds also are being issued under the authority of the New Mexico Finance Authority Act, N.M. Stat. Ann. Section 6-21-1 *et seq.*, as amended; Chapter 6, Laws of New Mexico 1998, as amended by Chapter 95, Laws of New Mexico 2001; Chapter 5, Laws of New Mexico, 2000, as amended by Chapter 95, Laws of New Mexico 2001; and Chapter 45, Laws of New Mexico 2003 (collectively, the "Authorizing Legislation").

Purpose of the Metro Court Bonds

Proceeds from the sale of the Series 2005-1 Metro Court Bonds will be used to refund a portion of the NMFA's Court Facilities Fee Revenue Bonds, Series 2001A, currently outstanding in the aggregate principal amount of $21,600,000, the NMFA's Court Facilities Fee Revenue Bonds, Series 2002, currently outstanding in the aggregate principal amount of $24,725,000, and the NMFA's Court Facilities Fee Revenue Bonds, Series 2003, currently outstanding in the aggregate principal amount of $3,360,000. Proceeds from the sale of the Series 2005-1 Metro Court Bonds also will be used to pay costs of issuance of the Series 2005-1 Metro Court Bonds. See "The Plan of Refunding" and "Security for the Metro Court Bonds" in this Appendix.

Proceeds from the sale of the Series 2005-2 Metro Court Bonds will be used to refund the NMFA's Taxable Court Facilities Fee Revenue Bonds, Series 2001B, currently outstanding in the aggregate principal amount of $8,360,000. Proceeds from the sale of the Series 2005-2 Metro Court Bonds will also be used to pay costs of issuance of the Series 2005-2 Metro Court Bonds.

Security for the Metro Court Bonds

The Metro Court Bonds are special limited obligations of the NMFA payable solely from the Pledged Court Facilities Revenues, as described below, which consist of a portion of certain court fees and penalty assessments deposited to the Court Facilities Fund and distributed monthly by the State Treasurer, at the direction of the Director of the Administrative Office of the Courts, to the NMFA for deposit to the Pledged Court Facilities Revenue Fund and 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. Certain funds and accounts created and maintained by the NMFA pursuant to the Metro Court Resolution will also be pledged to secure repayment of the Metro Court Bonds.

Pledged Court Facilities Revenues

The courts in the State have historically levied various fees and costs (the "Court Fees") in connection with court cases in addition to fines and penalties. Until 1981, revenues produced from collection of such Court Fees were deposited into the State's general fund and used to fund general administrative expenses of the State and activities of the state criminal justice system. The Authorizing Legislation increased certain of the Court Fees by various incremental amounts. Certain of those increases were effective on July 1, 1998. These incremental amounts are referred to in this Official Statement as "Court Facilities Fees" and comprise substantially all the Pledged Court Facilities Revenues pledged to the payment of the Metro Court Bonds and other obligations under the Metro Court Resolution.

The Pledged Court Facilities Revenues include all distributions to the NMFA consisting of –

- a portion of the docketing fees and costs collected by the Supreme Court, the Court of Appeals, the magistrate courts and the metropolitan courts of the State,

- a portion of certain fees and penalty assessments imposed against defendants convicted (as defined in Section 35-6-1 NMSA 1978) of certain misdemeanors or for violating any provision of the State Motor Vehicle Code involving the operation of a motor vehicle,

- all parking fees, rents and other charges collected by the Bernalillo County Metropolitan Court from tenants or users of the parking facility adjacent to the Bernalillo County Metropolitan Court after deduction of all fixed costs related to such parking facility and all costs of operating and maintaining the parking facility, and

- other revenues, if any, received by the NMFA from the State after the adoption of the Metro Court Bond Resolution and authorized by the Legislature to be pledged to the payment of the Metro Court Bonds and other obligations under the Metro Court Resolution.

Such monthly distributions are required by the Metro Court Resolution to be deposited by the NMFA into the Pledged Court Facilities Revenue Fund and, when so deposited, will constitute Pledged Court Facilities Revenues.

Pursuant to the NMFA Act, the State has pledged and agreed with the holders of any bonds or notes issued by the NMFA that the State will not limit or alter the rights vested by the NMFA Act in the NMFA to fulfill the terms of any agreements made with holder of bonds and notes of the NMFA or in any way impair the rights and remedies of those holders until the bonds or notes, together with the interest thereon and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged. The Authorizing Legislation also provides that any law authorizing the collection of fees for the Court Facilities Fund or distribution of the money in the Court Facilities Fund to the NMFA shall not be amended, repealed or otherwise directly or indirectly modified so as to impair any outstanding revenue bonds that may be secured by a pledge of the distributions of the Court Facilities Fund, unless the revenue bonds have been discharged in full or provision has been made for a full discharge.

New Mexico Court System

New Mexico's court system consists of five levels of state funded courts, which, pursuant to the Authorizing Legislation, will collect Court Facilities Fees. These five levels of courts include the Supreme Court, the Court of Appeals, the District Courts, the Magistrate Courts, and the Metropolitan Courts. The Supreme Court and the Court of Appeals are courts of appeal. The District Courts are trial courts of general jurisdiction. The Magistrate Courts and the Metropolitan Courts (of which Bernalillo County Metropolitan Court is the only such metropolitan court in the State) are trial courts of limited jurisdiction (that is, the courts are without authority unless that authority has been granted by the state constitution or statute). Presented on the following page is an organizational chart of the State court system.

Pursuant to the State Constitution, the Supreme Court has been granted ultimate supervisory control over the administration and operation of the State's court system. The Administrative Office of the Courts was created to act with respect to such matters on behalf of the Supreme Court. The Administrative Office of the Courts has approximately 86 employees and is managed by a Director appointed by the Supreme Court.

Though the Supreme Court is authorized to oversee all operational functions of the State courts, it allows all state courts (except the Magistrate Courts) to oversee their respective operations. Each court has a chief judge of the court, an administrator and an administrative staff to handle its internal operations. The Administrative Office of the Courts handles operational matters for the Magistrate Courts.

Each of the courts in the State system, except the Magistrate Courts, are required to have an audit performed each year by an external, independent auditing firm. The Administrative Office of the Courts employs two full-time internal auditors to perform audits on a portion of the Magistrate Courts each year and to perform other similar internal auditing functions. In addition, 13 to 14 randomly selected Magistrate Courts are audited each year by an external independent auditing firm.

New Mexico Court System Organizational Chart

ADMINISTRATIVE OFFICE OF THE COURTS

- Supervises all court system administrative matters for the Supreme Court.

SUPREME COURT
Court of Last Resort
5 Justices

- Mandatory appellate jurisdiction in criminal matters where sentence is life imprisonment or death, appeals from Public Regulation Commission, appeals from granting of writs of habeas corpus, appeals in actions challenging nominations and removal of public officials.
- Discretionary jurisdiction in denials of petitions for writs of habeas corpus, petitions for writs of certiorari to Courts of Appeals, other extraordinary writ matters, and certified questions from either the Court of Appeals or federal courts.

COURT OF APPEALS
Intermediate Appeals Court
10 Judges

- Mandatory jurisdiction in civil, non-capital criminal, and juvenile cases.
- Discretionary jurisdiction in interlocutory decision cases and administrative agency appeals.

DISTRICT COURT
Court of General Jurisdiction
13 Districts, 75 Judges

- Jurisdiction in tort, contract, real property rights, estate, mental health, appeals for administrative agencies and lower courts, criminal misdemeanor cases and miscellaneous civil jurisdiction.
- Exclusive jurisdiction in domestic relations, criminal appeals and juvenile cases.

MAGISTRATE COURT
Court of Limited Jurisdiction
62 Judges

- Tort, contract, real property rights.
- Felony preliminary hearings.
- Misdemeanors.
- DWI/DUI & other traffic violations.

METROPOLITAN COURT
Court of Limited Jurisdiction

- Tort, contract, real property rights.
- Felony preliminary hearings.
- Misdemeanors.
- DWI/DUI & other traffic violations.

Historical Court Filings and Convictions

The following table presents historical information concerning court filings during fiscal years 1999 through 2004, which are the latest years for which such information is available. The categories of filings are those for which the Court Facilities Fees are collected.

Historical Court Filings
Fiscal Years 1999-2004

Court	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Supreme Court	574	607	567	571	555	651
Court of Appeals	966	948	866	868	856	897
District Court [1]						
Civil	57,092	58,214	56,390	58,089	61,312	60,055
Juvenile	7,535	7,542	6,189	6,322	6,048	6,434
Criminal	13,101	12,995	14,349	14,449	14,718	16,522
Metropolitan Court						
Civil	12,584	12,113	13,597	13,118	13,525	14,391
Traffic	75,151	67,655	84,526	78,211	64,962	60,288
DWI	5,558	5,103	6,209	6,452	6,728	6,815
Misdemeanor	7,732	8,040	8,590	8,859	8,765	7,629
Magistrate Court						
Civil	15,782	16,825	19,206	18,214	18,469	20,545
Traffic	94,281	91,387	92,022	102,237	107,254	105,253
DWI	8,936	7,153	6,786	6,568	7,342	7,863
Misdemeanor	17,017	18,260	16,443	16,953	17,213	18,203
MVD Penalty Assessment[2]	—	—	—	—	—	—

(1) Facility Fee collected only on conviction of Motor Vehicle Code penalty assessment misdemeanor pursuant to §§ 66-8-116.1, 66-8-116.2 & 66-8-116.3 NMSA 1978. No docketing fee collected.
(2) Consists of uncontested Motor Vehicle Code Violations not requiring a court appearance. Data is not available.

Source: Administrative Office of the Courts

Court Facilities Fees

The following table presents the existing Court Fees and Court Facilities Fees imposed by the Authorizing Legislation and the resulting aggregate fee imposed and collected by the courts in connection with filings and convictions.

Current Court Fees and Court Facilities Fees

Description of Fee	Current Court Fees[(1)]	Court Facilities Fees	Total
Supreme Court Docket Fee	$29.00	$ 96.00	$125.00
Court of Appeals Docket Fee	25.00	100.00	125.00
District Court[(2)]			
Court Facilities Fee (Bernalillo County)		24.00	24.00
Court Facilities Fee (All Other Counties)		10.00	10.00
Magistrate and Metropolitan Court			
Civil Docent Fee:			
Magistrate Court	55.00	12.00	67.00
Metropolitan Court	50.00	12.00	62.00
Criminal Court Docket Fee[(3)]		20.00	20.00
Facilities Fee:[(4)]			
Magistrate Court		10.00	10.00
Metropolitan Court		24.00	24.00
Jury Fee[(5)]		15.00	15.00
Copying Fee[(6)]		.50	.50
MVD Penalty Assessment			
Bernalillo County	30.00	24.00	54.00
All other Counties	40.00	10.00	50.00

(1) Current fees became effective July 1, 2003.
(2) Court Facilities Fee collected only on conviction of Motor Vehicle Code penalty assessment misdemeanor pursuant to §§ 66-8-116.1, 66-8-116.2 & 66-8-116.3 NMSA 1978.
(3) Assessed on each case except for penalty assessment misdemeanor that is not contested. § 35-6-4 NMSA 1978.
(4) Collected upon conviction from persons convicted of operating a motor vehicle in violation of the Motor Vehicle Code, convicted of a crime constituting a misdemeanor or a petty misdemeanor or convicted of violating an ordinance punishable by a term of imprisonment. § 35-6-1 NMSA 1978.
(5) Collected from the party demanding trial by jury in a civil action at the time the demand is filed or made.
(6) For making and certifying copies of any records in the court, for each page copied by photographic process. §35-6-1 NMSA 1978.

Source: Administrative Office of the Courts

Collection of Court Facilities Fees

Since the Court Facilities Fees became effective on July 1, 1998, transfers of Court Facilities Fees to the NMFA have generally occurred monthly, although not consistently within the time frames specified in the procedures for transfers of those funds described below. Since November 2001, transfers of Court Facilities Fees to the NMFA have occurred monthly.

<u>Fees Collected by the State Courts</u>. Pursuant to State law, all docket fees must be paid at the time of filing of the case or appeal, and all fees payable in connection with convictions must be paid upon conviction. The State Legislature has provided that judges shall assess and collect, and shall not waive, defer or suspend the Court Facilities Fees and other fees and costs. However, judges are allowed to waive docket fees in cases of indigence and, in some cases, judges allow fees payable upon conviction to be paid over time instead of in full upon conviction or allow community service to be performed in lieu of costs, fees and fines. To provide a priority list for allocation of money received among the twelve various costs, fees and fines imposed upon docket filings and convictions, the New Mexico Supreme Court approved Order No. 99-8500 on March 4, 1999. The Order provides that money received is to be allocated first to costs/docket fees (which fees are deposited in the Court Facilities Fund), second to the court automation fee and third to the Court Facilities Fee. These fees are credited first because they are pledged to the payment of bonds. The remaining nine costs, fees and fines are credited thereafter in the order in which they were enacted.

State court system procedures require that all fees collected by State courts be deposited into bank trust accounts maintained by each court within 24 hours after receipt. Within five business days after the end of each month, all courts, except the Magistrate Courts, are required to deposit all Court Facilities Fees into the Court Facilities Fund within the State Treasury and submit a report of such deposits to the Fiscal Services Division of the Administrative Office of the Courts (the "Fiscal Services Division").

With respect to the Magistrate Courts only, a monthly financial report, including cash receipts and journals, is sent to the Fiscal Services Division within five business days after the end of each month and the Fiscal Services Division reconciles each court's report to the monthly statement issued by the court's bank. Invoices for the Court Facilities Fees owed by each court are then required to be sent by the Fiscal Services Division to the Magistrate Courts within ten business days after receipt of the monthly financial report, and each Magistrate Court is required to mail a check for the amount of its Court Facilities Fees due to the Fiscal Services Division within five business days after receipt of the invoice. The Fiscal Services Division deposits the Court Facilities Fees into the Court Facilities Fund within the State Treasury within 24 hours of receipt.

<u>Motor Vehicle Code Penalty Assessments</u>. Motor Vehicle Code Penalty Assessments consist of certain Motor Vehicle Code violations that, if uncontested, may be paid directly by the violator without necessity of court appearance. Pursuant to State law, all such assessments must be paid within 30 days. Failure to pay (or appear in court) within 45 days causes a warning notice to be sent to the violator and, 20 days after such warning notice is mailed, the violator's driver's license is automatically suspended. Reinstatement of the license requires payment of all amounts owed, plus a reinstatement fee of $25.00.

All assessments paid by mail are mailed directly to a lock-box maintained by the State Department of Taxation and Revenue in an envelope provided at the time of the violation. These envelopes are collected daily by State personnel along with all other Department of Taxation and Revenue receipts, and their contents are photocopied, endorsed and deposited in bank trust accounts within 24 hours of receipt. Within five business days after the end of each month, amounts in such accounts consisting of Court Facilities Fees are transferred to the Court Facilities Fund within the State Treasury.

The State Motor Vehicle Department estimates that 80% of all Motor Vehicle Code Penalty Assessments are so paid in a timely manner and that eventually, over 90% of all such fees are ultimately paid. According to the State Motor Vehicle Department, the unpaid fees are largely attributable to non-resident violators residing in those states which are not a party to a multi-state agreement whereby the state where a violator resides agrees to penalize such violator (through a mechanism such as driver's license suspension) upon notification by another state. Currently, only the states of Alaska, California, Montana, Oregon, Wisconsin and Michigan are not members of this agreement.

Historic Collections of Pledged Court Facilities Revenues

The Court Facilities Fees described above under "Court Facilities Fee" have been imposed in connection with the filings and convictions indicated since July 1, 1998, and the resulting revenues constitute substantially all of the Pledged Court Facilities Revenues securing repayments of the Bonds. The table below presents total collections of Pledged Court Facilities Revenues during fiscal years 1999 through 2004.

Total Collections of Court Facilities Fees*
Fiscal Years 1999-2004

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
$3,770,227	$5,471,799	$6,042,953	$5,870,834	$5,925,077	$5,460,512

* Reflects amounts due to the NMFA for the Fiscal Year indicated. Actual amounts received by the NMFA during such Fiscal Years may have varied due to the timing of transfers of Court Facilities Fees to the NMFA.

Source: Administrative Office of the Courts

The following table presents total collections of Court Facilities Fees by court or by agency (that is, the State Motor Vehicle Department).

Collections of Court Facilities Fees by Court or Agency
Fiscal Years 2002-04

	2002 Court Fees	% of Total FY 2002 Collections	2003 Court Fees	% of Total FY 2003 Collections	2004 Court Fees	% of Total FY 2004 Collections
Supreme Court	$ 16,416	0.3%	$ 15,264	0.3%	$ 20,352	0.4%
Court of Appeals	46,800	0.8%	46,190	0.8%	45,920	0.8%
District Court	890	0.0%	1,212	0.0%	1,926	0.0%
Magistrate Courts	2,108,012	35.9%	2,142,285	36.2%	2,217,347	40.6%
Metropolitan Courts	1,756,402	29.9%	1,688,476	28.5%	1,491,041	27.3%
Motor Vehicle Department	1,942,314	33.1%	1,930,914	32.6%	1,683,926	30.8%
Total	$ 5,870,834	100.0%	$ 5,925,077*	98.4%	$ 5,460,512	100.0%

* Total includes $100,735 not transferred to the NMFA in 1998.

Source: Administrative Office of the Courts

Legal Issues Related to Pledged Court Facilities Revenues

The legislation providing for the assessment of the fees analogous to the Court Facilities Fees and their remittance to a fund serving a purpose similar to the Court Facilities Fund had been questioned by the New Mexico Taxation and Revenue Department on the theory that such fees are "fines" within the meaning of Article XII, Section 4 of the New Mexico Constitution. Article XII, Section 4 provides that all "fines" collected under the general laws of the State of New Mexico "shall be remitted to the current school fund." If a court determined that the Court Facilities Fees are "fines" for the purposes of Article XII, Section 4, those components of the Court Facilities Fees determined to be fines would be remitted to the current school fund and not deposited in the Court Facilities Fund.

However, the Authorizing Legislation enjoys a strong presumption of constitutional validity under New Mexico Supreme Court decisions, pursuant to which a court will interpret statutes as constitutional unless it is convinced beyond reasonable doubt that the legislature exceeded its constitutional authority in enacting the legislation. The text of the statute imposing the fees expressly states that the fees have a compensatory rather than punitive purpose and consequently, are in the nature of "costs" rather than "fines."

Although no New Mexico court decision has ruled on whether the Court Facilities Fees are compensatory or penal in nature, the fees have characteristics similar to court assessments in other states which have been found to be fees rather than fines, including the following: (1) the objective statutory purposes of the fees are to provide revenue for Metropolitan Court Project and the Parking Facility Project, which are not penal purposes; (2) the statutory provisions for the fees are separate from the related provisions for the assessment of penalties; (3) the amount of the assessment does not increase with the culpability of the defendant to whom it is charged; (4) the amount of the assessment is small and any incidental punitive effect is minimal; and (5) while the fee is assessed in connection with and collected in the same manner as the related penalty assessment, it is deposited in a separate account earmarked for a specific, non-punitive purpose.

In response to questions raised by the New Mexico Taxation and Revenue Department concerning the constitutionality of an analogous set of court fees, the New Mexico Attorney General in a letter dated February 9, 1998 concluded that the statute authorizing the remittance of those analogous fees to a fund other than the current school fund is presumed constitutional and, pursuant to that presumption, properly designates the fees as costs which are outside the scope of Article XII, Section 4 of the New Mexico Constitution. The New Mexico Taxation and Revenue Department has raised no further questions with respect to the imposition and collection of those analogous fees or the Court Facilities Fees.

Additional Obligations

The NMFA may issue additional bonds payable from and constituting a lien upon the Pledged Court Facilities Revenues on a parity with the lien of the Metro Court Bonds ("Parity Court Facilities Obligations"). Before the NMFA may issue any Parity Court Facilities Obligations, the Legislature of the State must adopt legislation authorizing issuance of additional obligations payable from the Pledged Court Facilities Revenues, such legislation must become effective, and it must be determined that –

- The NMFA is then current in the accumulation of all amounts which are required to have then been accumulated in the Debt Service Fund, as required by the Metro Court Resolution; and

- The annual Pledged Court Facilities Revenues for the Fiscal Year or any consecutive 12-month period out of the 18 calendar months immediately preceding the date of the resolution authorizing the issuance of the proposed Parity Court Facilities Obligations shall have been sufficient to pay an amount representing at least 120% of the maximum annual principal and interest coming due in subsequent Fiscal Years on (1) the outstanding Parity Court Facilities Obligations and (2) the Parity Court Facilities Obligations proposed to be issued (excluding any required future accumulation of reserves for such additional obligations).

A written certificate of the Executive Director of the NMFA that the Pledged Court Facilities Revenues are sufficient to pay the required amounts set out above must be obtained prior to the issuance of the Parity Court Facilities Obligations and is to conclusively determine the right of the NMFA to issue the Parity Court Facilities Obligations.

The Plan of Refunding

In order to provide financing flexibility and efficiency, the NMFA is issuing the Series 2005-1 Metro Court Bonds to refund –

- the NMFA's Court Facilities Fee Revenue Bonds, Series 2001A currently outstanding in the aggregate principal amount of $21,600,000 (the "Refunded 2001A Bonds"),

- the NMFA's Court Facilities Fee Revenue Bonds, Series 2002 currently outstanding in the amount of $24,725,000 (the "Refunded 2002 Bonds"), and

- the NMFA's Court Facilities Fee Revenue Bonds, Series 2003 currently outstanding in the amount of $3,660,000 (the "Refunded 2003 Bonds" and, together with the Refunded 2001A Bonds and the Refunded 2002 Bonds, the "Refunded Tax-Exempt Bonds").

In order to provide financing flexibility and efficiency, the NMFA is issuing the Series 2005-2 Metro Court Bonds to refund the NMFA's Taxable Court Facilities Fee Revenue Bonds, Series 2001B currently outstanding in the amount of $8,360,000 (the "Refunded 2001B Bonds" and, together with the Refunded Tax-Exempt Bonds, the "Prior Metro Court Bonds").

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 each respective account, sufficient moneys will be available to pay when due or otherwise payable the principal of and interest on the Refunded 2001A Bonds and Refunded 2002 Bonds due to and including June 15, 2011, and redeem on that date all remaining Refunded 2001A Bonds and Refunded 2002 Bonds.

Pursuant to the Indenture, proceeds of the Prior Bonds will be deposited in the Program Fund established under the Indenture and transferred to the debt service funds established under the resolutions authorizing the Refunded 2003 Bonds and Refunded 2001B Bonds and will be used, together with amounts in those debt service funds, to redeem on the date of delivery of the Metro Court Bonds all remaining Refunded 2003 Bonds and Refunded 2001B Bonds.

Upon such deposits and investment and compliance with certain notice requirements of the respective resolutions authorizing the Prior Metro Court Bonds, each series of Prior Metro Court Bonds will no longer be deemed to be outstanding under and entitled to the benefit of the pledge and lien established by the resolution authorizing that series of Prior Metro Court Bonds.

The Prior Metro Court Bonds (other than the Refunded 2003 Bonds, which were purchased by the NMFA) are identified below by maturity date, interest rate and CUSIP number:

Court Facilities Fee Revenue Bonds, Series 2001A

Maturity (June 15)	Interest Rate	CUSIP Number
2020	5.50%	64711MNG8
2021	5.50	64711MNH6
2025	5.10	64711MNJ2

Court Facilities Fee Revenue Bonds, Series 2002

Maturity (June 15)	Interest Rate	CUSIP Number
2005	2.10%	64711MQL4
2006	2.45	64711MQM2
2007	2.75	64711MQN0
2008	3.10	64711MQP5
2009	3.30	64711MQQ3
2010	3.50	64711MQR1
2011	3.625	64711MQS9
2012	5.00	64711MQT7
2012	3.75	64711MRC3
2013	3.875	64711MQU4
2014	5.00	64711MQV2
2014	4.00	64711MRD1
2015	5.00	64711MQW0
2015	4.125	64711MRE9
2016	5.00	64711MQX8
2016	4.20	64711MRF6
2017	5.00	64711MQY6
2017	4.30	64711MRG4
2018	5.00	64711MQZ3
2018	4.40	64711MRH2
2019	4.50	64711MRA7
2020	4.60	64711MRB5

Taxable Court Facilities Fee Revenue Bonds, Series 2001B

Maturity (June 15)	Interest Rate	CUSIP Number
2005	5.375%	64711MNM5
2006	5.50	64711MNN3
2007	5.80	64711MNP8
2010	6.25	64711MNQ6

Annual Debt Service Requirements and Coverage Ratios

The following table shows for each fiscal year estimated available Pledged Court Facilities Revenues, principal and interest requirements for the Metro Court Bonds, total, combined debt service requirements for the Metro Court Bonds and estimated annual coverage ratios. Pledged Court Facilities Revenues for current and future fiscal years are estimated based on fiscal year 2003-04 figures. The estimated annual coverage ratios are based in part on assumptions that may not be realized.

Annual Combined Debt Service Requirements and Projected Coverage Ratios for the Metro Court Bonds

Fiscal Year	Estimated Pledged Court Facilities Revenues(2)	Principal(3)	Interest(4) (5)	Total Debt Service Requirements(5)	Debt Service Coverage
2005	$5,460,512	$2,545,000	$ 543,153	$3,088,153	1.79X
2006	5,460,512	1,760,000	2,715,737	4,475,737	1.22X
2007	5,460,512	1,830,000	2,649,561	4,479,561	1.22X
2008	5,460,512	1,905,000	2,576,178	4,481,178	1.22X
2009	5,460,512	1,985,000	2,495,406	4,480,406	1.22X
2010	5,460,512	2,080,000	2,403,169	4,483,169	1.22X
2011	5,460,512	2,180,000	2,302,769	4,482,769	1.22X
2012	5,460,512	2,285,000	2,196,931	4,481,931	1.22X
2013	5,460,512	2,400,000	2,082,681	4,482,681	1.22X
2014	5,460,512	2,525,000	1,964,031	4,489,031	1.22X
2015	5,460,512	2,650,000	1,841,381	4,491,381	1.22X
2016	5,460,512	2,775,000	1,712,869	4,487,869	1.22X
2017	5,460,512	2,915,000	1,574,119	4,489,119	1.22X
2018	5,460,512	3,060,000	1,429,769	4,489,769	1.22X
2019	5,460,512	3,215,000	1,277,219	4,492,219	1.22X
2020	5,460,512	3,375,000	1,117,213	4,492,213	1.22X
2021	5,460,512	3,540,000	948,463	4,488,463	1.22X
2022	5,460,512	3,725,000	771,463	4,496,463	1.21X
2023	5,460,512	3,900,000	590,463	4,490,463	1.22X
2024	5,460,512	4,100,000	395,163	4,495,463	1.21X
2025(1	5,460,512	4,305,000	190,463	4,495,463	1.21X

(1) Final maturity.
(2) See table of collections of Court Facilities Fees under the caption "Security for the Metro Court Bonds" in this Appendix D. Future collections are estimated based on the Court Facilities Fees received by the NMFA for fiscal year 2004 and are subject to change.
(3) Payable on June 15 of each year. Includes mandatory sinking fund payments.
(4) Payable on June 15 and December 15, commencing June 15, 2005.
(5) Numbers are rounded to the nearest dollar.

Source: Western Financial Group, LLC

Verification of Mathematical Computations

Prior to the delivery of the Metro Court 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 Underwriters relating to the adequacy of the maturing principal amounts of the United States governmental obligations held by Bank of Albuquerque, N.A., as Escrow Agent, and interest to be earned thereon to pay all of the principal of and premium, if any, and interest on the Refunded 2001A Bonds and the Refunded 2002 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 2001A Bonds and the Refunded 2002 Bonds will be deemed to have been paid and will no longer be outstanding as of the date of the establishment of the Fund.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2005C-D Bond Owners that, so long as the Series 2005C-D Bonds remain outstanding, the NMFA will provide certain annual financial information relating to the Pledged Court Facilities Revenues for any year during which the Series 2005C-D Bonds are outstanding in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as described in the Official Statement under "CONTINUING DISCLOSURE UNDERTAKING."

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]

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 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and New Mexico Finance Authority Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D

We have acted as bond counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C in the aggregate principal amount of $50,395,000, and its Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D in the aggregate principal amount of $8,660,000 (together, the "Series 2005C-D Bonds"). The Series 2005C-D Bonds are being issued for the purpose of providing funds (i) to refund the NMFA's outstanding Court Facilities Fee Revenue Bonds, Series 2001A, Series 2002 and Series 2003 through the purchase of the NMFA's Court Facilities Fee Refunding Revenue Bonds, Series 2005-1, (ii) to refund the NMFA's outstanding Court Facilities Fee Revenue Bonds, Series 2001B through the purchase of the NMFA's Court Facilities Fee Refunding Revenue Bonds, Series 2005-2, and (iii) to pay the costs of issuance of the Series 2005C-D 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 2005C-D Bonds are authorized to be issued under and secured by a Subordinated General Indenture of Trust and Pledge dated March 1, 2005 (the "General Indenture"), as amended and supplemented by a First Supplemental Indenture of Trust dated as of March 1, 2005 ("Supplemental Indenture", and collectively 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 2005C-D 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 2005C-D 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 2005C-D 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 2005C-D Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2005C-D Bonds or any other offering material relating to the Series 2005C-D 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 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and New Mexico Finance Authority Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D

We have acted as special tax counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C in the aggregate principal amount of $50,395,000, and its Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D in the aggregate principal amount of $8,660,000 (together, the "Series 2005C-D Bonds"). The Series 2005C-D Bonds are being issued for the purpose of providing funds to (i) purchase securities issued by a governmental unit within the State of New Mexico to refinance a public project, 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 2005C Bonds. The NMFA has 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 2005C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005C Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2005C 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 2005C 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 2005D Bonds is not 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 2005C-D 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 2005C-D Bonds; and

(b) although we have rendered an opinion that interest on the Series 2005C 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 2005C-D 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 2005C-D 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 2005C-D Bonds. The Series 2005C-D 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 2005C-D Bond certificate will be issued for each maturity of the Series 2005C-D 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 2005C-D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005C-D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005C-D 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 2005C-D 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 2005C-D Bonds, except in the event that use of the book-entry system for the Series 2005C-D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005C-D 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 2005C-D 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 2005C-D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005C-D 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 2005C-D 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 2005C-D 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 2005C-D 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 2005C-D 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 2005C-D 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 the Underwriters take 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 2005C-D BONDS, REFERENCES HEREIN TO THE BONDHOLDERS OF THE SERIES 2005C-D BONDS WILL MEAN CEDE & CO., AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2005C-D 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 2005C-D Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2005C-D 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 2005C-D 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.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

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 MEXICO FINANCE AUTHORITY • REVOLVING FUND REFUNDING REVENUE BONDS • SERIES 2005C AND SERIES 2005D

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NEW ISSUE – BOOK-ENTRY ONLY

DAC Bond®

Ratings: *Moody's: 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 2005E 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 2005E 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 2005E Bonds. See "TAX MATTERS."

$23,630,000
NEW MEXICO FINANCE AUTHORITY
Subordinate Lien Public Project Revolving Fund
Revenue Bonds
Series 2005E

Dated: Delivery Date **Due:** June 15, as shown on inside cover

The New Mexico Finance Authority Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E (the "Series 2005E 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 2005E 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 2005E Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2005E Bonds will be made in book-entry form only, and beneficial owners of the Series 2005E 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 2005E Bonds.

The Series 2005E Bonds will be issued under and secured by a Subordinated General Indenture of Trust and Pledge, dated as of March 1, 2005, as previously supplemented, and as supplemented by a Second Supplemental Indenture of Trust (collectively, the "Indenture"), dated as of July 1, 2005, each between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as Trustee. Interest on the Series 2005E Bonds is payable on June 15 and December 15 of each year, commencing December 15, 2005. Principal of the Series 2005E Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedule on the inside front cover.

SEE MATURITY SCHEDULE
ON INSIDE FRONT COVER

The Series 2005E Bonds are subject to redemption prior to maturity.

Proceeds of the Series 2005E Bonds will be used by the NMFA to purchase, contemporaneously with the issuance of the Series 2005E Bonds, the NMFA's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and to pay the costs of issuance of the Series 2005E Bonds. The principal of and premium, if any, and interest on the Series 2005E Bonds and additional bonds issued or to be issued are payable solely from and secured solely by the Trust Estate. The NMFA has issued and may issue additional bonds and other obligations pursuant to the Indenture with a lien on the Trust Estate in parity with the lien of the Series 2005E Bonds. The NMFA has issued and expects to issue bonds with a lien on the NMFA Portion of the Governmental Gross Receipts Tax senior to the lien of the Series 2005E Bonds.

The Series 2005E Bonds are special limited obligations of the NMFA, payable, together with additional bonds issued or to be issued, solely from the Trust Estate. The Series 2005E 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. No provision of the Series 2005E 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 Series 2005E 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 the Series 2005E 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 Series 2005E 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 Series 2005E 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, and by Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Disclosure Counsel to the NMFA. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2005E Bonds. It is expected that a single certificate for each maturity of the Series 2005E Bonds will be delivered to DTC or its agent on or about August 30, 2005. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2005E Bonds.

George K. Baum & Company **Ramirez & Co., Inc.**

Dated: July 28, 2005

Maturity Schedule

$23,630,000
New Mexico Finance Authority
Subordinate Lien Public Project Revolving Fund Revenue Bonds
Series 2005E

Year (June 15)	Principal Amount	Interest Rate	Price	CUSIP Number
2013	$ 65,000	4.000%	101.806%	64711MP50
2014	120,000	4.250	103.105	64711MP68
2015	125,000	4.250	102.657	64711MP76
2016	480,000	3.875	99.081	64711MP84
2017	560,000	4.000	99.252	64711MP92
2018	635,000	4.000	98.322	64711MQ26
2019	1,215,000	5.000	107.025*	64711MQ34
2020	3,305,000	5.000	106.776*	64711MQ42
2021	3,340,000	5.000	106.362*	64711MQ59
2022	3,375,000	5.000	106.197*	64711MQ67
2023	3,420,000	5.000	106.032*	64711MQ75
2024	3,470,000	5.000	105.867*	64711MQ83
2025	3,520,000	5.000	105.621*	64711MQ91

*Priced to first optional redemption date.

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 2005E 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 2005E 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 2005E BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005E 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 2005E 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 2005E Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2005E 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 2005E 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

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Albuquerque and Santa Fe, New Mexico

Trustee, Registrar and Paying Agent
Bank of Albuquerque, N.A.
Albuquerque, New Mexico

TABLE OF CONTENTS

OFFICIAL STATEMENT

$23,630,000
NEW MEXICO FINANCE AUTHORITY
Subordinate Lien Public Project Revolving Fund
Revenue Bonds
Series 2005E

INTRODUCTION

This Official Statement, which includes the cover page and appendices, provides information in connection with the offer and sale of the Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E (the "Series 2005E Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2005E 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 Subordinated General Indenture of Trust and Pledge (the "General Indenture"), dated as of March 1, 2005, as previously supplemented and as supplemented by a Second Supplemental Indenture of Trust, dated as of July 1, 2005, between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as trustee (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 2005E 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 Series 2005E Bonds

Proceeds from the sale of the Series 2005E Bonds will be used by the NMFA to (1) purchase, contemporaneously with the issuance of the Series 2005E Bonds, $23,630,000 aggregate principal amount of its Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005 (collectively, the "Subordinate Lien Cigarette Tax Revenue Bonds"), and (2) pay the cost of issuance of the Series 2005E Bonds. The Subordinate Lien Cigarette Tax Revenue Bonds will provide funds for improvements at the Health Sciences Center at the University of New Mexico in Albuquerque, New Mexico, and for the current refunding of a portion of the NMFA's Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate). For certain information concerning the Subordinate Lien Cigarette Tax Revenue Bonds, see "THE PLAN OF FINANCING – Purposes of the Series 2005E Bonds" and Appendix D – "INFORMATION CONCERNING THE SUBORDINATE LIEN CIGARETTE TAX REVENUE BONDS." The Subordinate Lien Cigarette Tax Revenue Bonds, together with loan agreements and securities relating to parity bonds, are referred to in this Official Statement as the "Agreements." The NMFA, as issuer of the Subordinate Lien Cigarette Tax Revenue Bonds, and other governmental units entering into or issuing Agreements are referred to collectively as "Governmental Units."

Proceeds of the Series 2005E Bonds will also be used to provide funding for the payment of costs of issuance of the Series 2005E Bonds.

Parity Obligations

Bonds and other obligations with a lien on the Trust Estate in parity with the lien of the Series 2005E Bonds have been issued and may be issued to provide loans to and to purchase securities from Governmental Units. For a description of the parity Bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds."

Authority for Issuance

The Series 2005E 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 2005E Bonds

Payments

The Series 2005E Bonds will be dated the Delivery Date. Interest on the Series 2005E Bonds is payable on June 15 and December 15 of each year, commencing December 15, 2005. The Series 2005E 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 Series 2005E 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 purchasers of the Series 2005E Bonds will not receive physical delivery of bond certificates except as more fully described in Appendix F – "BOOK-ENTRY ONLY SYSTEM." Payments of principal of and interest on the Series 2005E 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 2005E Bonds, all as more fully described in Appendix F. In reading this Official Statement, it should be understood that while the Series 2005E 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 2005E Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix F, 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 2005E Bonds are subject to redemption prior to maturity. See "THE SERIES 2005E BONDS – Redemption."

Security and Sources of Payment for the Bonds

Special Limited Obligations

The Bonds, including the Series 2005E Bonds, are special limited obligations of the NMFA secured by and payable solely from the special revenues and funds of the NMFA pledged under the Indenture, including –

- moneys from the repayment by governmental borrowers of loans made or securities issued to finance a project under the Subordinated Indenture ("Agreements");
- moneys from the repayment by governmental borrowers to the NMFA of loans made or securities purchased from moneys in the Public Project Revolving Fund and pledged as "Additional Pledged Loans" under the Indenture;
- certain Governmental Gross Receipts Tax revenues and moneys from the repayment to the NMFA of certain loans, to the extent available on June 1 of each year after all obligations of the NMFA under the Senior Indenture (as defined below under "Senior Bonds") have been satisfied (together with the moneys described in the previous bullet point, the "Subordinate Lien PPRF Revenues");
- any additional revenues received by the NMFA and designated as part of the special revenues and funds pledged under the Indenture pursuant to a Supplemental Indenture or Pledge Notification; 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.

The revenues and moneys described in the second and third bullet points above, after being applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Indenture, may be released to the NMFA on June 16 of each year to be used for any lawful purpose. However, only amounts not required to make payments of all debt service requirements on all Bonds and other parity obligations in the then current Bond Fund Year, after giving credit for amounts in the Debt Service Reserve Fund and the Agreement Reserve Fund established under the Indenture, may be released from the lien of the Indenture. Those moneys described in the third bullet point are paid to the Trustee immediately upon their release from the Senior Indenture on June 1 of each year and are available in the Revenue Fund for the purposes described above only until June 16 of each year. All amounts described in the second bullet point are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA (although they also may be released on June 16 of each year to the extent they are not required for debt service in the then current Bond Fund Year). For a more complete description of these deposits and transfers, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS –Flow of Funds" and see "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Debt Service Reserve Account

Payment of the Series 2005E Bonds also will be secured by amounts on deposit in a separate account in the Debt Service Reserve Fund, which will be funded upon the issuance of the Series 2005E Bonds with a surety bond in the amount of the Debt Service Reserve Requirement, as described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Service Reserve Fund."

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 2005E Bonds. The timing, amount and other details of such parity Subordinate 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 2005E 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." Except as provided in the Senior Indenture, the NMFA may not issue bonds or other indebtedness payable with a priority senior to the pledge of the Trust Estate for payment of the Subordinate Bonds without the prior written consent of 100% of the owners of the Outstanding Bonds and other obligations secured by the Indenture. The NMFA has issued, and may in the future issue, indebtedness having a lien on PPRF Revenues, prior to their release from the Senior Indenture, senior to the lien of the Subordinate Bonds. For a description of currently outstanding bonds that were issued pursuant to the Senior Indenture, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds."

Senior Bonds

The lien of the Indenture on PPRF Revenues is junior and subordinate to the lien on those revenues of the NMFA's General Indenture of Trust and Pledge dated as of June 1, 1995, as amended and supplemented (the "Senior Indenture"), and pursuant to the Senior Indenture the NMFA has issued and may issue bonds ("Senior Bonds") or other obligations with a lien on those revenues senior to the lien of the Indenture. Those bonds are not secured by or payable from any portion of the Trust Estate other than the PPRF Revenues. The NMFA expects to issue two series of Senior Bonds pursuant to the Senior Indenture on or about August 1, 2005. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds."

Bond Insurance

Payment of scheduled principal of and interest on the Series 2005E Bonds will be insured pursuant to a financial guaranty insurance policy (the "2005E Bond Insurance Policy") to be issued by MBIA Insurance Corporation (the "2005E Bond Insurer") concurrently with the delivery of the Series 2005E Bonds. See "BOND INSURANCE."

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2005E Bond Owners that, so long as the Series 2005E 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 Subordinate Lien 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 2005E 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 2005E 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 2005E 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. For a discussion of such opinion and certain other tax consequences incident to the ownership of the Series 2005E Bonds, see "TAX MATTERS."

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2005E 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 E 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 E. 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. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2005E 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 Series 2005E Bonds

The Series 2005E 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 2005E Bonds will be delivered to DTC or its agent on or about August 30, 2005. The Series 2005E Bonds will be distributed in the initial offering by George K. Baum & Company and Ramirez & Co., Inc. (the "Underwriters"), for which George K. Baum & Company 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 Series 2005E Bonds.

THE SERIES 2005E BONDS

Generally

The Series 2005E Bonds are being issued pursuant to the Act, the Indenture, and a resolution adopted by the NMFA. The Series 2005E Bonds are being issued to fund the purchase price of the Subordinate Lien Cigarette Tax Revenue Bonds, described in greater detail below, as part of the NMFA's Public Project Revolving Fund Program, and to pay costs of issuing the Series 2005E Bonds. For a description of the 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 approved forms of the General Indenture and the Second Supplemental Indenture are available as described under "ADDITIONAL INFORMATION."

Description of the Series 2005E Bonds

The Series 2005E Bonds will be dated as of the Delivery Date. Interest will accrue on the Series 2005E 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 15 and December 15 of each year, commencing December 15, 2005. The Series 2005E 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 2005E 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 2005E 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 2005E Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2005E Bonds will be made in book-entry form only, and beneficial owners of the Series 2005E Bonds will not receive physical delivery of bond certificates, except as described in Appendix F. 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 2005E Bonds. For a more complete description of the book-entry only system, see Appendix F – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Generally

The Series 2005E Bonds are subject to optional redemption as described below.

Optional Redemption by the NMFA

The Series 2005E Bonds maturing on or after June 15, 2016 are subject to optional redemption at any time on and after June 15, 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 Series 2005E Bonds to be redeemed, plus accrued interest to the redemption date, but without premium.

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 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 2005E Bonds, are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2005E 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 2005E 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 PPRF Secured Obligations (as to amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments, and, second, for the equal and ratable payment of the Reserve Instrument Repayment Obligations. The Trust Estate includes –

- Agreement Revenues,
- Additional Pledged Revenues,
- Subordinate Lien PPRF Revenues, and
- other amounts in certain funds and accounts created and maintained pursuant to the Indenture,

all as more fully described below. The Agreement Revenues, Additional Pledged Revenues and Subordinate Lien PPRF Revenues are collectively referred to as the "Subordinate Lien Revenues."

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 Subordinate Lien PPRF Revenues are transferred to the Trustee for deposit 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. 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 for use as described in the Indenture. These moneys are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Subordinate Lien PPRF Revenues and Additional Pledged Revenues are deposited, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." For a more complete description of the Revenue Fund, see "Flow of Funds - Revenue Fund" under this caption.

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 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.

The Subordinate Lien Cigarette Tax Revenue Bonds will be "Securities," and thus "Agreements," for purposes of the Indenture. See Appendix D – "INFORMATION CONCERNING THE SUBORDINATE LIEN CIGARETTE TAX REVENUE BONDS" for a description of the Subordinate Lien Cigarette Tax Revenue Bonds, the revenues pledged to their payment, and the scheduled debt service payments on the Subordinate Lien Cigarette Tax Revenue Bonds, which constitute Agreement Revenues. Agreement Revenues are not among the amounts released from the Revenue Fund on June 16 of each year, as described below under "Subordinate Lien PPRF Revenues."

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 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. No account will be established in the Agreement Reserve Fund with respect to the Subordinate Lien Cigarette Tax Revenue Bonds. See "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 Revenues to the repayment of its Loan. The only Agreements with repayment obligations currently securing the Bonds are the NMFA's $50,395,000 Court Facilities Fee Refunding Revenue Bonds, Series 2005-1 (the "Series 2005-1 Metro Court Bonds") and $8,660,000 Court Facilities Fee Refunding Revenue Bonds, Series 2005-2 (the "Series 2005-2 Metro Court Bonds" and, together with the Tax-Exempt Metro Court Bonds, the "Metro Court Bonds"). The official statement for the NMFA's Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D, which includes information concerning the Metro Court Bonds, is available at the Internet site http://www.munios.com. Following their issuance, the Subordinate Lien Cigarette Tax Revenue Bonds also will constitute Agreements. See Appendix D for information concerning the Subordinate Lien Cigarette Tax Revenue Bonds and Appendix H for a list of the Governmental Units and their outstanding Loan balances.

The following table lists those Securities (including the Subordinate Lien Cigarette Tax Revenue Bonds) that, based on scheduled payments in fiscal year 2005-06 and assuming no redemption of the Securities, are expected to generate Agreement Revenues in fiscal year 2005-06.

Agreements Expected to Generate Agreement Revenues[1]

Agreement	FY 2005-06 Debt Service[2]	% of Projected FY 2005-06 Agreement Revenues	Final Maturity
Metro Court Bonds	$4,475,737	82.95%	6/15/2025
Subordinate Lien Cigarette Tax Revenue Bonds	919,649[3]	17.05	6/15/2025
	$5,398,386	100.00%	

(1) Based on scheduled fiscal year 2005-06 debt service and assumes no redemption.
(2) Constitutes Agreement Revenues.
(3) Represents capitalized interest.

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 Subordinate Lien PPRF Revenues.

Additional Pledged Revenues

Additional Pledged Revenues consist of any additional revenues received by the NMFA and designated as part of the Trust Estate pursuant to the Indenture or a Pledge Notification. Additional Pledged Revenues are not revenues attributable to Additional Pledged Loans. There will be no Additional Pledged Revenues on the date of delivery of the Series 2005E Bonds.

Additional Pledged Revenues may be among the amounts released from the Revenue Fund on June 16 of each year to the extent they will not be required for debt service in the then current Bond Fund Year, as described above under "Subordinate Lien PPRF Revenues." Additional Pledged Revenues are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA. For a more complete description of these deposits and transfers, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Subordinate Lien PPRF Revenues

Subordinate Lien PPRF Revenues consist in part of the NMFA Portion of the Governmental Gross Receipts Tax and moneys from the repayment to NMFA of the Additional Senior Pledged Loans deposited to the revenue fund created under the Senior Indenture ("PPRF Revenues"), to the extent such amounts are available on June 1 of each Bond Fund Year after all obligations of the NMFA under the Senior Indenture have been satisfied and the Trustee has retained any amounts required to be retained pursuant to the Senior Indenture. "Additional Senior Pledged Loans" are additional loans or securities made or purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund, the payments of principal of and interest on which have been specifically pledged by the NMFA to the payment of the Senior Bonds and other amounts due under the Senior Indenture. Pursuant to the Indenture, all such released moneys are to be deposited into the Revenue Fund created by the Indenture.

Subordinate Lien PPRF Revenues also consist in part of revenues from 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," and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds and PPRF Secured Obligations and other amounts secured by the Indenture. See "Flow of Funds" below under this caption.

Additional Pledged Loans (repayments of which are pledged to the payment of the Bonds) are not Additional Senior Pledged Loans (repayments of which are pledged only to the extent available for transfer under the Senior Indenture on June 1 of each Bond Fund Year).

Moneys in the Revenue Fund are available to pay on a parity basis debt service on Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments. Moneys in the Revenue Fund, after being applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Indenture, may be released to the NMFA on June 16 of each year to be used for any lawful purpose. However, only amounts not required to make payments of all Debt Service requirements on all Bonds and other parity obligations in the then current Bond Fund Year, after giving credit for amounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, may be released from the lien of the Indenture. Those moneys consisting of PPRF Revenues released from the lien of the Senior Indenture are paid to the Trustee immediately upon their release from the Senior Indenture on June 1 of each year and are available in the Revenue Fund for the purposes described above only until June 16 of each year. All payments representing principal and interest from Additional Pledged Loans (which, together with the PPRF Revenues released from the lien of the Senior Indenture, comprise Subordinate Lien PPRF Revenues) and all amounts received as Additional Pledged Revenues (which do not) are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA (although they also may be released on June 16 of each year to the extent they will not be required for debt service in the then current Bond Fund Year). For a more complete description of these deposits and transfers, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

The following table shows, for fiscal years 2000-01 through 2004-05, the amounts released to the NMFA from the Senior Indenture, which represents the amount that would be included as Subordinate Lien PPRF Revenues under the Indenture.

Historic Subordinate Lien PPRF Revenues
Fiscal Years 2000-01 Through 2004-05
(Released to NMFA on June 1)

Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05
$16,565,126	$21,694,363	$18,138,693	$18,185,919	$37,894,840*

* Includes the repayment during fiscal year 2004-05 of several direct short-term loans made to borrowers from the Public Project Revolving Fund.

Source: NMFA

The amount of Subordinate Lien PPRF Revenues actually received by the NMFA on any June 1 may be affected by several factors. Those factors include:

- The amount of Governmental Gross Receipts Taxes that will be collected and distributed to the NMFA and ultimately released from the Senior Indenture to become Subordinate Lien PPRF Revenues is subject to fluctuation based on the activities that generate those taxes. There can be no guarantee that the NMFA's Portion of the Governmental Gross Receipts Taxes collected in the future will be consistent with historical collection trends. See "Outstanding Senior Bonds – The Governmental Gross Receipts Tax – Collection and Distribution Information" under this caption.

- The amount of money to be released from the Senior Indenture to become Subordinate Lien PPRF Revenues may be reduced if the other revenues expected to pay debt service on the Senior Bonds in a given year are not available. The availability of those revenues is dependent upon many factors not within the NMFA's control, including the ability of entities to which the NMFA has loaned the proceeds of the Senior Bonds to repay those loans.

Subject to the provisions of the Senior Indenture, the NMFA may issue additional Senior Bonds without the consent of the holders of the Bonds. For a description of the conditions that must be met to issue additional Senior Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds."

Debt Service Reserve Fund

The Indenture permits the establishment of a separate Account in the Debt Service Reserve Fund solely for the benefit of the holders of a Series of Bonds, and establishes a separate Account for the Series 2005E Bonds in an amount equal to the least of (1) 10% of the proceeds of such Series of Bonds determined on the basis of original principal amount (unless original issue premium or original issue discount exceeds two percent of original principal, then determined on the basis of initial purchase price to the public), (2) the maximum annual Debt Service during any Bond Fund Year for such Series of Bonds, and (3) 125% of the average annual Debt Service for such Series of Bonds (the "Debt Service Reserve Requirement"). If at any time the amount on deposit in any Account of the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement for that Account, the NMFA is required to make payments totaling the amount of any such deficiency directly to the Trustee for deposit into the Debt Service Reserve Fund.

The Debt Service Reserve Requirement may be funded entirely or in part with one or more letters of credit, bond insurance policies, surety bonds, standby bond purchase agreement, lines of credit or other devices (each, a "Reserve Instrument"). No Reserve Instrument may be allowed to expire or terminate while the related Series of Bonds are Outstanding unless and until cash has been deposited into the related account of the Debt Service Reserve Fund, or a new Reserve Instrument has been issued in place of the expiring or terminating Reserve Instrument, or any combination thereof in an amount or to provide coverage, as the case may be, at least equal to the amount required to be maintained in the related account of the Debt Service Reserve Fund.

Flow of Funds

The Indenture creates a Revenue Fund, a Program Fund (with separate accounts for each Agreement or Project), a Bond Fund, a Debt Service Fund (with separate accounts for each Agreement), a Debt Service Reserve Fund (with a separate account for each series of Bonds with a Debt Service Reserve Requirement), an Agreement Reserve Fund (with a separate account for each Agreement that has a reserve requirement), an Expense Fund and a Reserve Instrument Fund.

Flow of Funds Under General Indenture

All Loan Payments payable under the Loan Agreements and Securities (except as otherwise provided in a Supplemental Indenture) are required to be paid directly to the NMFA for remittance to the Trustee for deposit immediately upon their receipt, as follows:

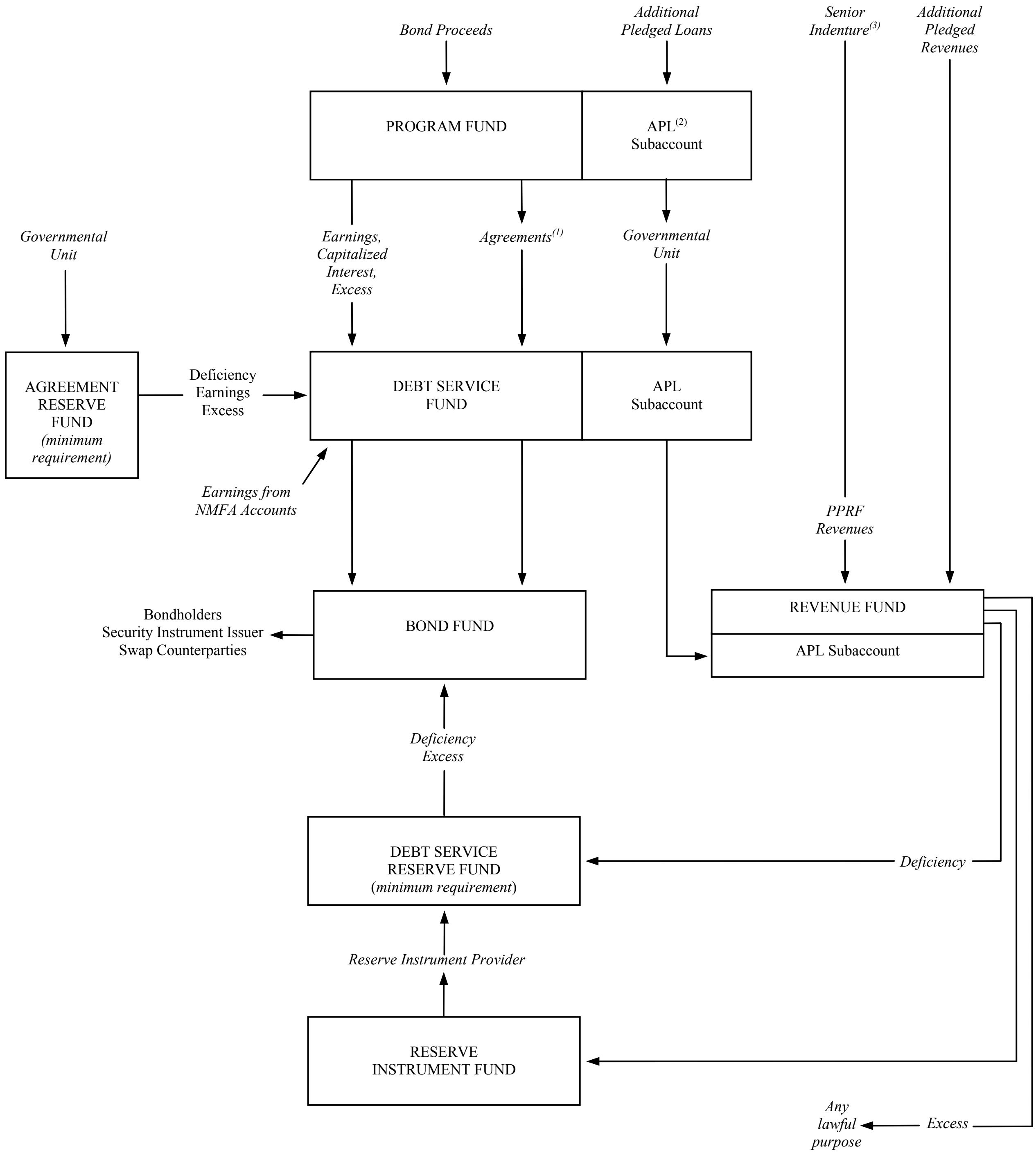
First: to the related Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit in that Account to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan;

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; and

Third: to the payment of Program Costs (to the extent allocable to such Agreement).

Presented on the following page is a diagram of the funds and the flow of revenues under the Indenture.

Indenture Flow of Funds



(1) Consist of Loans and Securities, including the Subordinate Lien Cigarette Tax Revenue Bonds.
(2) "APL" refers to Additional Pledged Loans.
(3) PPRF Revenues released each June 1.

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. Two Business Days prior to an Interest Payment Date, available moneys in the Revenue Fund will be transferred to the Paying Agent for the Bonds to the extent the amounts in the Bond Fund and the Debt Service Fund are insufficient to pay Debt Service on the Bonds on such Interest 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 from payments relating to a Governmental Unit's Agreement, (2) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (3) to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess 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. Any excess attributable to earnings on funds, and accounts for the Governmental Unit will be returned to the Governmental Unit or will be credited to the Loan Payments next coming due and any other excess will be deposited into the Revenue Fund.

Revenue Fund

During each Bond Fund Year, (1) all PPRF Revenues released from the lien of the Senior Indenture will be paid by the NMFA to the Trustee immediately upon their release on June 1 of each year, (2) all Additional Pledged Revenues will be immediately deposited with the Trustee and (3) all payments representing principal and interest from Additional Pledged Loans will be paid immediately upon their receipt by the NMFA to the Trustee. All of those amounts will be accounted for and maintained by the Trustee in the Revenue Fund. The Revenue Fund will be kept separate and apart from all other accounts of the Trustee and prior to transfers of any excess from the Revenue Fund on June 16 of each year (as described below), all amounts in it will be transferred by the Trustee in the order of priority specified below:

- To the Bond Fund, an amount needed, when added to amounts on deposit in the Bond Fund and transferred from the Debt Service Fund, to pay the principal of and interest on the Bonds due on June 15 and to rectify any deficiency in the Bond Fund that has not otherwise been rectified.

- To the paying agent for any PPRF Secured Obligation that notifies the Trustee, an amount needed, when added to amounts otherwise available for such purpose, to pay the principal and interest then due with respect to the PPRF Secured Obligations on June 15 and to rectify any such deficiency in the payment of any PPRF Secured Obligation has occurred that has not otherwise been rectified.

- To the Bond Fund, an amount needed, when added to amounts transferred from the Debt Service Fund, to pay the amounts due on the Security Instrument Repayment Obligations and the SWAP Payments (net of SWAP Receipts) then due pursuant to any Security Instrument Agreements or Interest Rate Swaps, and the amount needed to rectify any deficiency in the payment of any Security Instrument Repayment Obligations or SWAP Payments that has not been rectified.

The transfers required by the preceding paragraph are to be made on a parity basis. If the amount available for transfer is insufficient, the Trustee must make those transfers ratably according to the amounts due.

After making the transfers described above, the NMFA must make the following transfers to the Trustee:

- To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (1) to the Accounts in the Debt Service Reserve Fund, any amounts required by the General Indenture and by any Supplemental Indenture to accumulate therein the applicable Debt Service Reserve Requirement with respect to each Series of Bonds at the times and in the amounts provided in the General Indenture and in any Supplemental Indenture and (2) if funds shall have been withdrawn from an Account in the Debt Service Reserve Fund or any Account in the Debt Service Reserve Fund is at any time funded in an amount less than the applicable Debt Service Reserve Requirement, the NMFA shall transfer from the Revenue Fund to such Account or Accounts in the Debt Service Reserve Fund an amount sufficient to restore such Account or Accounts within one year with 12 substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Debt Service Reserve Requirement); or a ratable portion (based on the amount to be transferred pursuant to the following bulleted clause) of remaining amounts if less than the amount necessary; and

- Equally and ratably to the Accounts of the Reserve Instrument Fund, with respect to all Reserve Instruments in effect and expected to continue in effect after the end of such month, such amount from the Revenue Fund, or a ratable portion (based on the amount to be transferred pursuant to the previous bulleted clause) of the amount so remaining if less than the amount necessary, that is required to be paid, on or before the next such transfer or deposit from the Revenue Fund into the Reserve Instrument Fund, to the Reserve Instrument Provider pursuant to any Reserve Instrument Agreement, other than Reserve Instrument Costs, in order to cause the Reserve Instrument Coverage to equal the Reserve Instrument Limit within one year from any draw date under the Reserve Instrument.

In the event that funds have been withdrawn from an Account in the Agreement Reserve Fund, or any Account in the Agreement Reserve Fund is at any time funded in an amount less than its Agreement Reserve Requirement after making the transfers described above, the NMFA will transfer for deposit in such Account sufficient Subordinate Lien PPRF Revenues, Agreement Revenues with respect to the related Agreement, Additional Pledged Revenues and revenues from Additional Pledged Loans to restore such Account within one year with 12 substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Agreement Reserve Requirement); or a ratable portion of remaining Subordinate Lien PPRF Revenues, Agreement Revenues with respect to the related Agreement, Additional Pledged Revenues and revenues from Additional Pledged Loans if less than the amount necessary.

After making the foregoing transfers to the Bond Fund and to the Paying Agent for the PPRF Secured Obligations and to the Security Instrument Issuers and to the SWAP Providers and to the Reserve Instrument Providers, on June 16 of each year, the NMFA will be entitled to direct the Trustee in writing to release to the NMFA the balance on deposit in the Revenue Fund and the Trustee must then transfer the balance to the NMFA. However, prior to any such release being made, there must be retained in the Revenue Fund an amount, after giving credit for available amounts in all accounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, sufficient to make payments of all Bond Debt Service requirements (calculated as provided in clauses (i), (ii) and (iii) of the definition of Debt Service presented under the caption "Definitions" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE"), Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations coming due in the then current Bond Fund Year; provided further, that once additional moneys are deposited into the Bond Fund to make all of the foregoing payments, the amounts retained in the Revenue Fund may be released from the lien of the Indenture but only to the extent of additional moneys deposited into the Bond Fund. The NMFA may use the balance for:

- deposit to the Public Project Revolving Fund as required by the Act;

- redemption of Bonds prior to maturity by depositing the same into the Bond Fund;

- refinancing, refunding, repurchase or advance refunding of any Bonds; or

- for any other lawful purpose, including payment of Program Costs for Bonds and similar costs for PPRF Secured Obligations, replacement of reserves for Bonds or PPRF Secured Obligations and payment of Termination Payments.

The NMFA may, but is not obligated to, use any legally available PPRF Revenues of the NMFA to satisfy its obligations under the Indenture.

Debt Service Reserve Fund

In the event of a deficiency in the Bond Fund for a Series of Bonds, the Trustee will transfer moneys on deposit in the related Account of the Debt Service Reserve Fund to the Bond Fund to make up such deficiency. Moneys on deposit in any Account of the Debt Service Reserve Fund will be used to make up any deficiencies in the Bond Fund only for the Series of Bonds secured by that Account and any Reserve Instrument may only be drawn upon with respect to the Series of Bonds for which such Reserve Instrument was obtained.

If funds on deposit in an Account of the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund, and there is insufficient cash available in such Account of the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such Series are in effect, the Trustee will immediately make a demand for payment on such Reserve Instruments, to the maximum extent authorized by such Reserve Instruments, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund.

Moneys at any time on deposit in the account of the Debt Service Reserve Fund in excess of the amount required to be maintained therein (taking into account the amount of related Reserve Instrument Coverage) will be transferred by the Trustee to the Bond Fund at least once each year.

Investment Earnings

All income earned from the investment of moneys in the respective Accounts held by the NMFA and the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit exceeds the related Agreement Reserve Requirement), shall 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, with all earnings received on the Governmental Unit's Accounts being allocated solely to the benefit of such Governmental Unit.

Additional Bonds

Generally

Additional Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued, created or incurred, only if certain requirements have been met, including the following:

- NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are presented below under the caption "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, PPRF Secured Obligations 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), (2) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance) or (3) to finance other projects approved by the NMFA.

- No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes if (1) the issuance of such Additional Bonds, PPRF Secured Obligations 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, PPRF Secured Obligations or other indebtedness, bonds or notes and the application of the proceeds thereof.

All payments required to be made into the Bond Fund must have been made in full, and there must be on deposit in each account of the Debt Service Reserve Fund (taking into account any Reserve Instrument Coverage) the full amount required to be accumulated therein at the time of issuance of the Additional Bonds.

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" means 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 or PPRF Secured Obligations expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year or Interest Rate Swaps to be executed, 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 or Additional Pledged Revenues released from the 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 Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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 (as defined below) to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

    - the earnings on the Bond Fund for each such Bond Fund Year; and

    - the Aggregate Annual Debt Service (as defined below) for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Instrument Repayment Obligations reasonably expected to be Outstanding; and

- showing that in each such Bond Fund Year the aggregate of the amounts set forth in the first three bulleted clauses above exceeds 100% of the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Obligations reasonably expected to be Outstanding. For purposes of the foregoing, the following assumptions apply:

    - The Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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;

    - For any Bonds issued in a 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

    - Earnings on the Bond Fund will be assumed to equal the greatest amounts from any consecutive 12 months of the immediately preceding 24 months.

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 PPRF Secured Obligations, Nonperforming Loans and Additional Pledged Loans (as defined below), 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" 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.

For most purposes of the Indenture, "Rating Agencies" means Moody's Investors Service, Inc., Standard and Poor's 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. For purposes of the Cash Flow Statement, however, "Rating Agencies" means Moody's Investors Service, Inc. and Fitch Ratings or their successors and assigns; provided that, if more than one such Rating Agency will be categorizing Loans and Additional Pledged Loans, for purposes of assigning a category, "Rating Agencies" will refer to the Rating Agency assigning the lower of the categorizations.

Pursuant to the Indenture, at the time of issuance of each series of Bonds or PPRF Secured Obligation, 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, a PPRF Secured Obligation or an Additional Pledged Loan may be revised by the Rating Agencies except (1) in the case of Category IV Loans, PPRF Secured Obligations or Additional Pledged Loans, which may be designated by the NMFA or the Rating Agencies, or (2) in the case of Nonperforming Loans and Additional Pledged Loans, recategorization shall occur automatically.

Of the Agreements submitted to the Rating Agency to date, all have been designated Category I.

The formula described in detail above can be expressed as follows: If A = Subordinate Lien PPRF Revenues and Additional Pledged Revenues, B = Assumed Repayments of Loans and Additional Pledged Loans, C = Bond Fund earnings and D = Aggregate Annual Debt Service on all Bonds Outstanding), then Additional Bonds may be issued under the Indenture if:

$$A + B + C > D$$

PPRF Secured Obligations

The NMFA may identify any bond, note or other obligation identified in a Supplemental Indenture or Pledge Notification as a PPRF Secured Obligation. PPRF Secured Obligations are secured solely with amounts deposited to the Revenue Fund, including the Subordinate Lien PPRF Revenues, and are not Bonds.

No Senior Lien Obligations Other Than Senior Bonds

Other than the Senior Bonds, no additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Trust Estate for payment of the Bonds, PPRF Secured Obligations, the Security Instrument Repayment Obligations and the SWAP Payments will be created or incurred without the prior written consent of 100% of the Owners of Outstanding Bonds, Owners of PPRF Secured Obligations, Security Instrument Issuers and SWAP Counterparties.

Outstanding Parity Bonds

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 Indenture. 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

* Bonds mature on June 15.

Source: Western Financial Group, LLC

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. The Metro Court Bonds are "Agreements" for purposes of the Indenture and the revenues pledged to their payment are pledged to the payment of 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. Subordinate Lien Revenues are not pledged to the payment of the Metro Court Bonds.

See "ANNUAL DEBT SERVICE REQUIREMENTS" for Debt Service Requirements on the Outstanding Bonds and aggregate payments under Agreements. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS –Trust Estate – The Agreements and the Agreement Revenues" for a discussion of the Agreements, based on scheduled debt service payments in fiscal year 2005-06 and assuming no redemption, expected to generate Agreement Revenues in fiscal year 2005-06. See Appendix H for a listing of the Governmental Units and their outstanding Loan balances.

Outstanding Senior Bonds

General

The NMFA is authorized to issue bonds pursuant to the Senior 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 "Senior PPRF Agreements"). The Senior Bonds are secured by:

- all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, as more fully described below under "The Governmental Gross Receipts Tax";

- all revenues received or earned by the NMFA from or attributable to the Senior PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program);

- all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Senior Indenture; and

- all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Senior Indenture.

The NMFA has issued, and expects to issue, additional Senior Bonds under the Senior Indenture. Pursuant to a Bond Purchase Agreement dated June 30, 2005, the NMFA has agreed to deliver on or about August 1, 2005, 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 (collectively, the "2005 Senior Bonds"). The timing, amount and other details of any additional Senior Bonds have not been determined. The following table presents the series of Senior Bonds that are currently outstanding under the Senior Indenture, the Senior Bonds of such series to be refunded by the Public Project Revolving Fund Revenue Bonds, Series 2005B, and the Senior Bonds to be outstanding after issuance of the 2005 Senior Bonds. The official statement for the 2005 Senior Bonds is available during the offering period at the Internet site http://www.munios.com.

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of July 1, 2005[(1)]	Aggregate Principal Amount to be Refunded[(2)]	Aggregate Principal Amount After Issuance of the 2005 Senior Bonds
1996 A & B	$ 21,125,000	$ 785,000	—	$ 785,000
1997	8,585,000	5,870,000	$ 5,020,000	850,000
1999A	13,135,000	8,665,000	—	8,665,000
1999B	3,025,000	1,590,000	—	1,590,000
Taxable 1999C	2,265,000	1,160,000	—	1,160,000
Taxable 1999D	4,875,000	2,955,000	—	2,955,000
2000A	4,715,000	2,215,000	—	2,215,000
2000B	7,670,000	6,230,000	4,885,000	1,345,000
2000C	28,850,000	5,960,000	2,720,000	3,240,000
2002A	55,610,000	32,640,000	—	32,640,000
2003A	39,945,000	34,590,000	—	34,590,000
2003B	25,370,000	24,785,000	—	24,785,000
2004A-1	28,410,000	25,865,000	—	25,865,000
2004A-2	14,990,000	14,110,000	—	14,110,000
2004B-1	48,135,000	46,240,000	—	46,240,000
2004B-2	1,405,000	1,335,000	—	1,335,000
2004C	168,890,000	165,280,000	—	165,280,000
2005A	19,015,000	—	—	19,015,000
2005B	13,500,000	—	—	13,500,000
TOTAL	$509,515,000	$380,275,000	$12,625,000	$400,165,000

(1) Senior Bonds mature on June 1.
(2) To be refunded on or about August 1, 2005 with the proceeds of the Public Project Revolving Fund Refunding Revenue Bonds, Series 2005B.

Source: Western Financial Group, LLC

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 allocated to the Public Project Revolving Fund is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Senior 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 Senior Indenture within the Public Project Revolving Fund and is available (1) to pay debt service on the Senior Bonds to the extent Loan Payments paid by Governmental Units pursuant to loan agreements or securities made or issued in connection with projects funded with proceeds of Senior Bonds are not sufficient to pay debt service when due, and (2) to pay debt service on the portions of the Senior Bonds issued to fund grants.

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.

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 2003-04. 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 nine top payers of the governmental gross receipts tax for fiscal years 2001-02 through 2003-04. 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 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%	346,504	1.41
Total	$13,761,914	62.91%	$14,424,343	62.97%	$15,650,191	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

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 Agencies that such amendment will not result in the rating on the Bonds and the PPRF Secured Obligations, following such amendment, being lower than the rating on the Bonds and the PPRF Secured Obligations immediately prior to such amendment. See Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE

INDENTURE – Supplemental Indentures, Amendments to Agreements, and Amendments and Supplements to Senior 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, Additional Pledged Loan documents and any existing Security Documents 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 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 "2005E Bond Insurer") for use in this Official Statement. Such information regarding the 2005E Bond Insurer and the 2005E 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 2005E 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 2005E Bond Insurance Policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representation regarding the Series 2005E Bonds or the advisability of investing in the Series 2005E Bonds.

The 2005E 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 Series 2005E 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 2005E 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 Series 2005E 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 2005E Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2005E Bonds. The 2005E 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 Series 2005E Bonds upon tender by an owner thereof; or (4) any Preference relating to (1) through (3) above. The 2005E Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the Series 2005E Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2005E 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 2005E 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 2005E Bonds or presentment of such other proof of ownership of the Series 2005E Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2005E Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2005E Bonds in any legal proceeding related to payment of insured amounts on the Series 2005E 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 2005E 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 2005E 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 Series 2005E 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 2005E Bonds. MBIA does not guaranty the market price of the Series 2005E Bonds nor does it guaranty that the ratings on the Series 2005E 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 Series 2005E 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 Series 2005E Bonds

Proceeds from the sale of the Series 2005E Bonds will be used by the NMFA to purchase, contemporaneously with the issuance of the Series 2005E Bonds, its Subordinate Lien Cigarette Tax Revenue Bonds. The Subordinate Lien Cigarette Tax Revenue Bonds will provide funds for improvements to the Health Sciences Center at the University of New Mexico, and for the current refunding of a portion of the NMFA's Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate). For information concerning the Subordinate Lien Cigarette Tax Revenue Bonds, see Appendix D. See Appendix H for a list of the Governmental Units and the outstanding balances of the Loans financed with the Bonds, including the Series 2005E Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2005E Bonds are presented in the following table.

Sources and Uses of Funds

SOURCES:	
Par Amount	$23,630,000.00
Net Premium	1,327,644.45
NMFA Contribution	200,000.00
TOTAL SOURCES:	$25,157,644.45
USES:	
Purchase Price of Subordinate Lien Cigarette Tax Revenue Bonds[(1)]	$23,630,000.00
Capitalized Interest	930,407.24
Costs of Issuance[(2)]	597,237.21
TOTAL USES:	$25,157,644.45

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(1) The Series 2005E Bonds proceeds will be used by the NMFA to purchase, contemporaneously with the issuance of the Series 2005E Bonds, the Subordinate Lien Cigarette Tax Revenue Bonds.

(2) Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, trustee fees, underwriters' discount, bond insurance and surety bond premiums, and other miscellaneous costs. See "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2005E Bonds and all other currently Outstanding Bonds for each fiscal year through their respective final maturity dates.

Debt Service for the Bonds

	Series 2005E Bond				
Fiscal Year	Principal[1]	Interest[2] [3]	Total[3]	All Other Subordinate Parity Bonds[3]	Total for Subordinate Parity Bonds[3] [4]
2006	—	$ 919,649	$ 919,649	$4,475,737	$5,395,387
2007	—	1,161,663	1,161,663	4,479,561	5,641,224
2008	—	1,161,663	1,161,663	4,481,178	5,642,841
2009	—	1,161,663	1,161,663	4,480,406	5,642,069
2010	—	1,161,663	1,161,663	4,483,169	5,644,831
2011	—	1,161,663	1,161,663	4,482,769	5,644,431
2012	—	1,161,663	1,161,663	4,481,931	5,643,594
2013	$ 65,000	1,161,663	1,226,663	4,482,681	5,709,344
2014	120,000	1,159,063	1,279,063	4,489,031	5,768,094
2015	125,000	1,153,963	1,278,963	4,491,381	5,770,344
2016	480,000	1,148,650	1,628,650	4,487,869	6,116,519
2017	560,000	1,130,050	1,690,050	4,489,119	6,179,169
2018	635,000	1,107,650	1,742,650	4,489,769	6,232,419
2019	1,215,000	1,082,250	2,297,250	4,492,219	6,789,469
2020	3,305,000	1,021,500	4,326,500	4,492,213	8,818,713
2021	3,340,000	856,250	4,196,250	4,488,463	8,684,713
2022	3,375,000	689,500	4,064,250	4,496,463	8,560,713
2023	3,420,000	520,500	3,940,500	4,490,463	8,430,963
2024	3,470,000	349,500	3,819,500	4,495,463	8,314,963
2025	3,520,000[5]	176,000	3,696,000	4,495,463	8,191,463

(1) Payable on June 15 of each year.
(2) Payable on June 15 and December 15 of each year, commencing December 15, 2005.
(3) Amounts are rounded to the nearest whole dollar; totals may not add due to rounding.
(4) For Subordinate Bonds outstanding as of June 15, 2005 and the Series 2005E Bonds.
(5) Final maturity.

Source: George K. Baum & Company

The following table shows estimated available revenues pledged to the payment of the Subordinate Bonds, total debt service requirements for the Series 2005E Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on the three year average of the fiscal year 2002-03, 2003-04 and 2004-05 releases of PPRF Revenues from the Senior Indenture and scheduled payments under the Agreements and Additional Pledged Loans (of which there are currently none), 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 – Trust Estate – Subordinate Lien PPRF Revenues," "– The Agreements and the Agreement Revenues" and Appendix D – "INFORMATION CONCERNING THE SUBORDINATE LIEN CIGARETTE TAX REVENUE BONDS" for descriptions of the revenues presented in the table under the headings "Subordinate Lien PPRF Revenues" and "Agreement Revenues." See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Trust Estate – Subordinate Lien PPRF Revenues" for a list of some factors affecting Subordinate Lien PPRF Revenues.

Annual Debt Service Requirements and Projected Coverage Ratios

	Revenues				
Fiscal Year	Subordinate Lien PPRF Revenues[(1)]	Agreement Revenues[(2) (3)]	Estimated Total Revenues[(3)]	Total Debt Service Requirements[(3)]	Estimated Annual Coverage Ratios[(4)]
2006	$24,739,817	$5,395,387	$30,135,204	$5,395,387	5.59x
2007	24,739,817	5,641,224	30,381,041	5,641,224	5.39
2008	24,739,817	5,642,841	30,382,658	5,642,841	5.38
2009	24,739,817	5,642,069	30,381,886	5,642,069	5.38
2010	24,739,817	5,644,831	30,384,648	5,644,831	5.38
2011	24,739,817	5,644,431	30,384,248	5,644,431	5.38
2012	24,739,817	5,643,594	30,383,411	5,643,594	5.38
2013	24,739,817	5,709,344	30,449,161	5,709,344	5.33
2014	24,739,817	5,768,094	30,507,911	5,768,094	5.29
2015	24,739,817	5,770,344	30,510,161	5,770,344	5.29
2016	24,739,817	6,116,519	30,856,336	6,116,519	5.04
2017	24,739,817	6,179,169	30,918,986	6,179,169	5.00
2018	24,739,817	6,232,419	30,972,236	6,232,419	4.97
2019	24,739,817	6,789,469	31,529,286	6,789,469	4.64
2020	24,739,817	8,818,713	33,558,530	8,818,713	3.81
2021	24,739,817	8,684,713	33,424,530	8,684,713	3.85
2022	24,739,817	8,560,713	33,300,530	8,560,713	3.89
2023	24,739,817	8,430,963	33,170,780	8,430,963	3.93
2024	24,739,817	8,314,963	33,054,780	8,314,963	3.98
2025	24,739,817	8,191,463	33,931,280	8,191,463	4.02

(1) Future collections of the Subordinate Lien PPRF Revenues are based on the average of fiscal year 2002-03, 2003-04 and 2004-05 collections provided by the NMFA. As shown, do not reflect any possible future reduction for payment of debt service on Senior Bonds.

(2) Represents scheduled payments of principal of and interest on the Metro Court Bonds and the Subordinate Lien Cigarette Tax Revenue Bonds and does not reflect the redemption of any such bonds that may occur while the Subordinate Bonds are outstanding. Totals for fiscal years 2005-06 and 2006-07 do not reflect capitalized interest.

(3) Amounts are rounded to the nearest dollar.

(4) The Estimated Annual Coverage Ratios are calculated using the three-year average of the fiscal year 2002-03, 2003-04 and 2004-05 Subordinate Lien PPRF Revenues, assuming that no additional Parity Bonds will be issued pursuant to 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 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 Series 2005E 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., on the Board of Directors of Open Hands and of 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; 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 Senior Lien Program

The NMFA is authorized to issue bonds pursuant to the Senior 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 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 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 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 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 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 Parity Bonds" for a description of series of outstanding 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 G.

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 2005E Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Subordinate Lien Revenues for the payment of the debt service on the Series 2005E Bonds or in any way contesting or affecting the validity or enforceability of the Series 2005E 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 2005E Bonds.

UNDERWRITING

George K. Baum & Company and Ramirez & Co., Inc. (the "Underwriters") have agreed to purchase the Series 2005E Bonds from the NMFA pursuant to a Bond Purchase Agreement dated July 28, 2005 (the "Bond Purchase Agreement"), at an aggregate price of $24,827,679.45 (being the aggregate principal amount plus a net original issue premium of $1,327,644.45 and less underwriter's discount of $129,965.00). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2005E 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 2005E 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 2005E Bonds. The NMFA has 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 2005E Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005E 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 with such requirements and restrictions in rendering its opinion regarding the tax exempt status of interest on the Series 2005E 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 2005E 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 2005E 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 2005E 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 2005E Bonds.

Original Issue Premium. Certain of the Series 2005E Bonds were offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2005E Bond through reductions in the holder's tax basis for the Series 2005E 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 2005E Bond rather than creating a deductible expense or loss. Series 2005E Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the Series 2005E 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 Series 2005E Bond accrues as tax-exempt interest periodically over the term of the Series 2005E Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2005E Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2005E 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 2005E 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 2005E 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 E. 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 Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Disclosure Counsel to the NMFA. 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 2005E 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, 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 in connection with the issuance of the Series 2005E Bonds, the NMFA will execute and deliver a Continuing Disclosure Undertaking pursuant to which it will agree to provide the following information:

- to each nationally recognized municipal securities information repository ("NRMSIR") by 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 Series 2005E Bonds who requests such information):

    - annual financial information and operating data concerning the Subordinate Lien PPRF Revenues, such information to be of the type set forth under the table captioned "Historic Subordinate Lien PPRF Revenues – Fiscal Years 1999-2000 Through 2003-04 (Released to NMFA on June 1)" under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Trust Estate – Subordinate Lien PPRF Revenues" 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 Subordinate Lien Revenues for the then-current fiscal year (the "20% Test"), and each additional Governmental Unit designated by the NMFA by such business day, information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement 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 Series 2005E 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 Series 2005E Bonds;
    - modification of rights of security holders;
    - bond calls;
    - defeasances;
    - release, substitution, or sale of property securing repayment of the Series 2005E 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 Series 2005E 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 Series 2005E 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 Series 2005E Bonds.

Continuing disclosure undertakings previously entered into by the NMFA with respect to certain of the Senior Bonds 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.

None of the Securities represent annual Loan repayment obligations exceeding 20% of estimated Subordinate Lien Revenues in the first full year immediately following issuance of the Series 2005E Bonds.

RATINGS

Moody's Investor's Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa" and "AAA," respectively, to the Series 2005E Bonds, based on the understanding that upon the delivery of the Series 2005E Bonds, the 2005E Bond Insurance Policy will be issued by MBIA. In addition, Moody's and Fitch have assigned underlying (*i.e.*, without regard to the 2005E Bond Insurance Policy) long-term ratings of "A3" and "A+," respectively, to the Series 2005E Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007 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 2005E 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 2005E Bonds may have an adverse effect on the market price of the Series 2005E Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2005E Bonds any proposed revision or withdrawal of the ratings on the Series 2005E 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: Executive Director.

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 2005E Bonds.

APPROVAL BY THE NMFA

The distribution and use of this Official Statement by the Underwriters have been duly authorized and approved by the NMFA, and 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

A-1

NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2004

TABLE OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2004

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.

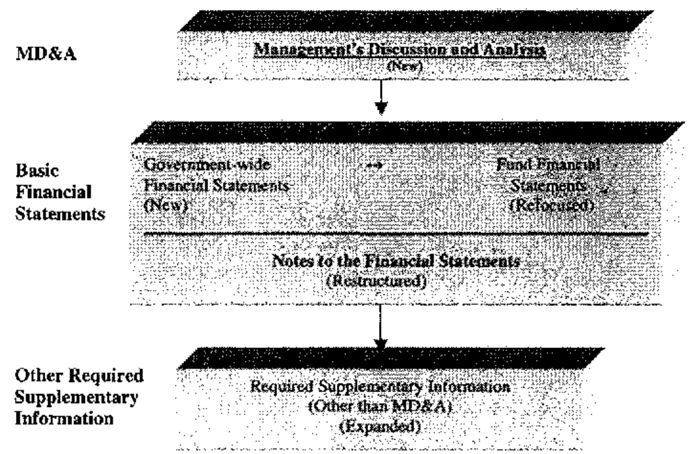
The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY 2004, 40 grants closed for a total of $10,730,017, compared to 40 grants totaling $20,452,613 in FY 2003.

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.

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:



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.

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.

A-7

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

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

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	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	$ -	-	2,195,870	3,201,122	16,286,452	73,569	17,069,269	39,940,824	3,291,994	82,059,100
Tax revenue receivable	-	-	452,613	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
	-	-	2,648,483	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	-	-	4,136,966	-	-	-	-	-	57,977	4,194,943
Bond reserve	-	-	70,128	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	-	-	4,207,094	1,444,671	-	32,241,774	-	-	651,677	38,545,216
Total assets	$ -	-	6,855,577	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	-	-	111,140	-	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	-	-	111,140	2,000,000	321,568	1,757,059	72,642	10,262	302,544	4,575,215
Fund balances - reserved for										
Debt service	-	-	6,744,437	-	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	-	-	6,744,437	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	$ -	-	6,855,577	4,886,131	16,786,452	32,315,343	17,069,269	39,940,824	4,750,395	122,603,991

See Notes to Financial Statements.

A-11

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)

A-12

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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

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.

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.

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.

A-23

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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			Bank	Book
	1	2	3	Balance	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.

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.

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.

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%.

A-32

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

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

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.

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

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 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 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 2005E Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the Series 2005E Bonds, copies of the Indenture may be obtained from the Trustee.

Definitions

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

"Accreted Amount" means, with respect to Capital Appreciation Bonds of any Series and as of the date of calculation, the amount established pursuant to the Supplemental Indenture authorizing such Capital Appreciation Bonds as the amount representing the initial public offering price, plus the accumulated and compounded interest on such Bonds.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and supplemented and the Public Securities Short-Term Interest Rate Act, being Sections 6-18-1 through 6-18-16, inclusive, NMSA 1978, as amended and supplemented.

"Additional Bonds and PPRF Secured Obligations" means any Bonds of the NMFA authorized and issued under the Indenture and any PPRF Secured Obligations secured by the lien of the Indenture in compliance therewith, except for the Initial 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 PPRF Secured Obligations and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless such loan or security is identified as an Additional Pledged Loan in a Supplemental Indenture or Pledge Notification or the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture. Additional Pledged Loans do not include loans identified as Additional Senior Pledged Loans.

"Additional Pledged Revenues" means any additional revenues received by the NMFA and designated as part of the Trust Estate pursuant to the Indenture or pursuant to a Supplemental Indenture or Pledge Notification. Additional Pledged Revenues are not revenues attributable to Additional Pledged Loans.

"Additional Senior Pledged Loans" means additional pledged loans at any time pledged pursuant to the Senior Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the Debt Service payable on all Bonds Outstanding or to be Outstanding (less capitalized interest and principal payable on any Subordinated Bond Anticipation Obligations), and any Security Instrument Repayment Obligations for such Bond Fund Year.

"Agreement" or "Agreements" means, as the case may be, one or more Loan 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 Indenture.

"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.

"Agreement Revenues" means amounts received or earned by the NMFA from or attributable to the Agreements. Agreement Revenues does not include amounts received from Additional Pledged Loans.

"Approval of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the excludability, if any, from gross income for federal income tax purposes of interest on the 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 PERCENTAGE
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

For purposes of calculating Assumed Repayments of Loans and Additional Pledged Loans for a Series of Bonds for which there are Uncommitted Proceeds, and for purposes of calculating Assumed Repayments of PPRF Secured Obligations, the Assumed Repayments of Loans and Additional Pledged Loans in the amount of the Uncommitted Proceeds and PPRF Secured Obligations will be treated as if they were Category IV Loans and Additional Pledged Loans.

"Authorized Amount" means, with respect to a Commercial Paper Program, the maximum principal amount of commercial paper which is then authorized by the NMFA to be outstanding at any one time pursuant to such Commercial Paper Program.

"Authorized Denominations" with respect to any Series of Bonds issued under the Indenture, has the meaning specified in the related Supplemental Indenture.

"Authorized Officer" means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary, the Executive Director, the Chief Operating Officer, the Chief Financial Officer, or the 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 document; (ii) in the case of a Governmental Unit, means the person or persons authorized by law, resolution or ordinance of the Governmental Unit to perform any act or sign 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.

"Balloon Bonds" means Bonds (and/or Security Instrument Repayment Obligations relating thereto) other than Bonds which mature within one year from the date of issuance thereof, 25% or more of the Principal Installments on which, during any period of twelve consecutive months (a) are due or (b) at the option of the Owner thereof may be redeemed.

"Bond Anticipation Obligations" means notes, lines of credit or other obligations issued or incurred by the NMFA pursuant to the Indenture in advance of the permanent financing of the NMFA for a Project or in connection with any other purposes of the NMFA.

"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 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 ending on June 15 of each year, except that the first Bond Year will commence on the date of initial delivery of the Initial Bonds and will end on June 15, 2005.

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

"Bonds" means all Bonds, Bond Anticipation Obligations, notes, commercial paper or other obligations (other than PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations) authorized by, issued under and secured by the Indenture, including the Initial Bonds and any Additional Bonds.

"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.

"Capital Appreciation Bonds" means Bonds, the interest on which (a) is compounded and accumulated at the rates and on the dates set forth in the Supplemental Indenture authorizing the issuance of such Bonds and designating them as Capital Appreciation Bonds, and (b) is payable upon maturity or redemption of such Bonds.

"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 or PPRF Secured Obligations expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year or Interest Rate Swaps to be executed, 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 or Additional Pledged Revenues 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 Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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;

(C) the earnings on the Bond Fund and the Debt Service Reserve Fund for each such Bond Fund Year; and

(D) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Instrument Repayment Obligations reasonably expected to be Outstanding;

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

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

(i) the Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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 a year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans will be included in calculating the ratio described above;

(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; and

(iv) earnings on the Bond Fund will be assumed to equal the greatest amounts from any consecutive 12 months of the immediately preceding 24 months.

"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 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 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 PPRF Secured Obligations, 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 fully 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.

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

"Commercial Paper Program" means commercial paper obligations with maturities of not more than two hundred seventy (270) days from the dates of issuance thereof which are issued and reissued by the NMFA from time to time pursuant to the Indenture and are outstanding up to an Authorized Amount.

"Covenant Default" with respect to any Loan Agreement, Securities or Additional Pledged Loan means any default or event of default under the Indenture other than (i) a default in payment of principal or interest under the Indenture; (ii) a rendering of the obligor, unable to perform its obligations under the Indenture; or (iii) a bankruptcy, insolvency or similar proceeding with respect to the obligor under the Indenture.

"Cross-over Date" means with respect to Cross-over Refunding Bonds the date on which the Principal portion of the related Cross-over Refunded Bonds is to be paid or redeemed from the proceeds of such Cross-over Refunding Bonds.

"Cross-over Refunded Bonds" means Bonds or other obligations refunded by Cross-over Refunding Bonds.

"Cross-over Refunding Bonds" means Bonds issued for the purpose of refunding Bonds or other obligations if the proceeds of such Cross-over Refunding Bonds are irrevocably deposited in escrow to secure the payment on an applicable redemption date or maturity date of the Cross-over Refunded Bonds (subject to possible use to pay Principal of the Cross-over Refunding Bonds under certain circumstances) and the earnings on such escrow deposit are required to be applied to pay interest on the Cross-over Refunding Bonds until the Cross-over Date.

"Current Interest Bonds" means Bonds not constituting Capital Appreciation Bonds. Interest on Current Interest Bonds will be payable periodically on the Interest Payment Dates provided therefor in a Supplemental Indenture.

"Debt Service" means, for any particular Bond Fund Year and for any Series of Bonds, any PPRF Secured Obligations, and any Security Instrument Repayment Obligations, an amount equal to the sum of (a) all interest payable during such Bond Fund Year on such Series of Bonds, any PPRF Secured Obligations and any Security Instrument Repayment Obligations plus (b) the Principal Installments, if any, payable during such Bond Fund Years on such Series of Bonds (other than Subordinated Bond Anticipation Obligations) any PPRF Secured Obligations and any Security Instrument Repayment Obligations; provided, however for purposes of the Indenture and for purposes of preparing a Cash Flow Statement,

(1) when calculating interest payable during such Bond Fund Year for any Series of Variable Rate Bonds (for which there is no Interest Rate Swap) or Security Instrument Repayment Obligations or any PPRF Secured Obligations bearing interest at a variable rate which cannot be ascertained for any particular Bond Fund Year, it will be assumed that such Series of Variable Rate Bonds or related Security Instrument Repayment Obligations or any PPRF Secured Obligations will bear interest at such market rate of interest applicable to such Series of Variable Rate Bonds or related Security Instrument Repayment Obligations or any PPRF Secured Obligations as are established for this purpose in the opinion of the NMFA's financial advisor, underwriter or similar agent (which market rate of interest may be based upon a recognized comparable market index, an average of interest rates for prior years or otherwise, so long as such estimates are based upon the then-current market conditions);

(2) when calculating interest payable during such Bond Fund Year for any Series of Variable Rate Bonds for which an Interest Rate Swap will be in effect, pursuant to which, the NMFA has agreed to pay a fixed rate of interest and the SWAP Counterparty has agreed to pay a variable rate of interest, which rate an Authorized Officer of the NMFA has certified in a written certificate of the NMFA approximates or is intended to approximate the variable rate payable on such Series of Variable Rate Bonds, such Series of Variable Rate Bonds will be deemed to bear interest at the fixed rate provided in such Interest Rate Swap; provided that such fixed rate may be utilized only so long as such Interest Rate Swap is contracted to remain in full force and effect;

(3) when calculating interest payable during such Bond Fund Year for any Series of Bonds which are issued with a fixed interest rate and with respect to which an Interest Rate Swap is in effect pursuant to which the NMFA has agreed to pay a variable rate of interest and the SWAP Counterparty has agreed to pay a fixed rate of interest, which rate an Authorized Officer of the NMFA has certified in a written certificate of the NMFA approximates or is intended to approximate the fixed rate payable on such Series of Bonds, such Series of Bonds will be deemed to bear interest at such market rate as will be established for this purpose, in the opinion of the NMFA's financial advisor, underwriter or similar agent (which market rate of interest may be based upon a recognized comparable market index, an average of interest rates for prior years or otherwise, so long as such estimates are based upon the then-current market conditions); provided that such variable rate will be utilized only so long as such Interest Rate Swap is contracted to remain in full force and effect;

(4) when calculating the Principal Installments payable during such Bond Fund Year on any Series of Balloon Bonds, there will be treated as payable in such Bond Fund Year the amount of Principal Installments which would have been payable during such Bond Fund Year had the Principal of each Series

of Balloon Bonds Outstanding and the related Security Instrument Repayment Obligations then Outstanding (or arising therefrom) been amortized, from their date of issuance over a period of 25 years, on a level debt service basis at an interest rate equal to the rate borne by such Balloon Bonds on the date of calculation, provided that if the date of calculation is within twelve months before the actual maturity of such Balloon Bonds or Security Instrument Repayment Obligations, the full amount of Principal payable at maturity will be included in such calculation;

(5) when calculating principal and interest payable during such Bond Fund Year with respect to any Commercial Paper Program, "Debt Service" means an amount equal to the sum of all principal and interest payments that would be payable during such Bond Fund Year assuming that the Authorized Amount of such Commercial Paper Program is amortized on a level debt service basis over a period of 25 years beginning on the date of calculation or, if later, the last day of the period during which obligations can be issued under such Commercial Paper Program, and bearing interest at the maximum interest rate applicable to such Commercial Paper Program;

provided, however, that there will be excluded from Debt Service (x) interest on Bonds (including Cross-over Refunding Bonds or Cross-over Refunded Bonds) to the extent that Escrowed Interest or capitalized interest is available to pay such interest, (y) Principal on Cross-over Refunded Bonds to the extent that the proceeds of Cross-over Refunding Bonds are on deposit in an irrevocable escrow, and such proceeds or the earnings thereon are required to be applied to pay such Principal (subject to the possible use to pay the Principal of the Cross-over Refunding Bonds under certain circumstances) and such amounts so required to be applied are sufficient to pay such Principal, and (z) Security Instrument Repayment Obligations to the extent that payments on Pledged Bonds relating to such Security Instrument Repayment Obligations satisfy the NMFA's obligation to pay such Security Instrument Repayment Obligations.

"Debt Service Fund" means the fund by that name established by the Indenture to be held by the Trustee and each Account created therein.

"Debt Service Reserve Fund" means the fund by that name created in the Indenture to be held by the Trustee and administered pursuant to the Indenture and each Account created therein.

"Debt Service Reserve Requirement" means with respect to each Series of Bonds issued pursuant to the Indenture, unless otherwise provided in the related Supplemental Indenture, an amount equal to the least of (i) 10% of the proceeds of such Series of Bonds determined on the basis of original principal amount (unless original issue premium or original issue discount exceeds 2% of original principal, then determined on the basis of initial purchase price to the public), (ii) the maximum annual Debt Service during any Bond Fund Year for such Series of Bonds, and (iii) 125% of the average annual Debt Service for such Series of Bonds; provided, however, that in the event any Series of Additional Bonds is issued to refund only a portion and not all of the then Outstanding Bonds of any other Series of Bonds issued pursuant to the Indenture (the "Prior Bonds"), then the portion of such Series of Prior Bonds that remain Outstanding immediately after the issuance of such Additional Bonds and the portion of such Additional Bonds that is allocable to the refunding of such Series of Prior Bonds may be combined and treated as a single Series for the purpose of determining the Debt Service Reserve Requirement relating to such combined Series and the resulting requirement will be allocated among the two Series pro rata based upon the total principal amount remaining Outstanding for each Series. The Debt Service Reserve Requirement may be funded entirely or in part by one or more Reserve Instruments as provided in the Indenture or, if provided in the related Supplemental Indenture, may be accumulated over time. Each Account of the Debt Service Reserve Fund will only be used with respect to the related Series of Bonds.

"Escrowed Interest" means amounts irrevocably deposited in escrow in connection with the issuance of Additional Bonds for refunding purposes or Cross-over Refunding Bonds secured by such amounts or earnings on such amounts which are required to be applied to pay interest on such Cross-over Refunding Bonds or the related Cross-over Refunded Bonds.

"Event of Default" means with respect to any default or event of default under the Indenture any occurrence or event specified in and defined by the Indenture.

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

"Fitch" means Fitch Ratings.

"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, the Bond Fund and the Debt Service Reserve Fund and the Accounts created therein.

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

"Indenture" means this Subordinated General Indenture of Trust and Pledge and all Supplemental Indentures thereto.

"Initial Bonds" means the NMFA's $50,395,000 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and $8,660,000 Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D.

"Interest Component" has the meaning given in the Indenture.

"Interest Payment Date," with respect to each Series of Bonds and PPRF Secured Obligations, has the meaning set forth in the related Supplemental Indenture.

"Interest Rate Swap" means an agreement between the NMFA or the Trustee (at the written direction of the NMFA) and a SWAP Counterparty providing for an interest rate cap, floor or swap with respect to any Bonds.

"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.

"Moody's" means Moody's Investors Service, Inc.

"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 under the Indenture.

"Outstanding" or "Bonds outstanding" means 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 is 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 has been given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

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

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

"Outstanding" includes all Bonds the principal and/or interest on which have been paid by any bond insurer pursuant to municipal bond insurance policy.

"PPRF Revenues" means collectively, the NMFA Portion of the Governmental Gross Receipts Tax and the revenues from the Additional Senior Pledged Loans, which amounts are to be deposited to the revenue fund created under the Senior Indenture.

"PPRF Secured Obligations" means any bond, note or other obligation identified in a Supplemental Indenture or Pledge Notification as a PPRF Secured Obligation under the Indenture and secured in accordance with the provisions of the Indenture. PPRF Secured Obligations are not "Bonds" as defined in the Indenture.

"Paying Agent" means the Trustee or any successor or additional paying agent appointed pursuant to the Indenture.

"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 or the authorizing document for such Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Debt Service Reserve 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 or 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 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”) rated AAA by Standard & Poor's and Aaa by *Moody's 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 receive fees for investment advisory or other services to such fund;

(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 and which matures not more than 270 days after the date of purchase;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in the highest long-term rating category 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” 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 and, if the amounts to be invested are in the Revenue Fund, such agreement must be approved in writing prior to its acquisition by each bond insurer then insuring any Series of Bonds; provided further, if the amounts to be invested are in the Bond Fund and relate to a Series of Bonds that have been or are then being insured by a bond insurer, such agreement must be approved in writing prior to its acquisition by the bond insurer then insuring such Series of Bonds;

(k) Investment contracts with providers the long term, unsecured debt obligations of which are rated at least “Aaa” by the Rating Agencies and, if the amounts to be invested are in the Revenue Fund, such agreement must be approved in writing prior to its acquisition by each bond insurer then insuring any Series of Bonds; provided further, if the amounts to be invested are in the Bonds Fund and relate to a Series of Bonds that have been or are then being insured by a bond insurer, such agreement must be approved in writing prior to its acquisition by the bond insurer then insuring such Series of Bonds; and

(l) The State Treasurer's short-term investment fund created pursuant to Section 6-10-10.1, NMSA 1978, maintained and invested by the State Treasurer.

“Pledge Notification” means a written notice, executed by an Authorized Officer and delivered to the Trustee, (i)(a) pledging one or more Additional Pledged Loans or (b) identifying loans or securities or obligations to be funded from Uncommitted Proceeds and designating such loans or securities as “Loans” under the Indenture, (ii) describing the Project financed or to be financed with the Additional Pledged Loan or the loan or security to be funded from Uncommitted Proceeds, as appropriate, and (iii) 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 the loan or security to be funded from Uncommitted Proceeds, as appropriate.

“Pledged Bonds” means any Bonds that have been (i) pledged or in which any interest has otherwise been granted to a Security Instrument Issuer as collateral security for Security Instrument Repayment Obligations or (ii) purchased and held by a Security Instrument Issuer pursuant to a Security Instrument.

“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” means (a) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest), except as used in connection with the authorization and issuance of Bonds and with the order of priority of payment of Bonds after an Event of Default, in which case “Principal” means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest), and (b) with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity.

“Principal Component” has the meaning given in the Indenture.

“Principal Installment” means, as of any date of calculation, (a) with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, the Principal amount of Bonds of such Series due on a certain future date, and (b) with respect to any Security Instrument Repayment Obligations, the principal amount of such Security Interest Repayment Obligations due on a certain future date.

“Program” means the NMFA’s public project revolving fund program.

“Program Costs” means the fees and expenses payable to the Trustee, any Paying Agent, any Remarketing Agent, any Broker-Dealer, any Auction Agent and any other agent consultant engaged to carry out the purposes of the NMFA and the NMFA and Security Instrument Costs.

“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 or refinancing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture or a Pledge Notification.

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

“Put Bond” means any Bond that is part of a Series of Bonds subject to purchase by the NMFA, its agent or a third party from the Owner of the Bond pursuant to provisions of the Supplemental Indenture authorizing the issuance of the Bond.

“Rating Agencies” means Moody's, Fitch and S&P, or any of their successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds or PPRF Secured Obligations. For purposes of the Cash Flow Statement, however, “Rating Agencies” means Moody’s Investors Service, Inc. and Fitch Ratings or their successors and assigns; provided that, if more than one such Rating Agency shall be categorizing Loans and Additional Pledged Loans, for purposes of assigning a category, “Rating Agencies” shall refer to the Rating Agency assigning the lower of the categorizations.

“Rebate Calculation Date” means, with respect to each Series of Bonds (other than Taxable 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.

“Regular Record Date” means, unless otherwise provided in a Supplemental Indenture, with respect to the Bonds, 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).

“Registered Owner” or “Owner” or “Bond holder” or “holder” means (i) when used with respect to the Bonds the person or persons in whose name or names a Bond is registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture and (ii) when used with respect to the PPRF Secured Obligations the registered owners or other holders thereof (if not registered).

“Reimbursement Bonds” means Bonds issued for the purpose of reimbursing the NMFA for Projects financed with cash advanced from the Public Project Revolving Fund.

“Remarketing Agent” means a remarketing agent or commercial paper dealer appointed by the NMFA pursuant to a Supplemental Indenture.

“Reserve Instrument” means a device or instrument issued by a Reserve Instrument Provider to satisfy all or any portion of the Debt Service Reserve Requirement applicable to a Series of Bonds. The term “Reserve

Instrument" includes, by way of example and not of limitation, letters of credit, bond insurance policies, surety bonds, standby bond purchase agreements, lines of credit and other devices.

"Reserve Instrument Agreement" means any agreement entered into by the NMFA and a Reserve Instrument Provider pursuant to a Supplemental Indenture (including the applicable portions of a Supplemental Indenture) and providing for the issuance by such Reserve Instrument Provider of a Reserve Instrument.

"Reserve Instrument Costs" means all fees, premiums, expenses and similar costs, other than Reserve Instrument Repayment Obligations, required to be paid to a Reserve Instrument Provider pursuant to a Reserve Instrument Agreement. Each Reserve Instrument Agreement will specify the fees, premiums, expenses and costs constituting Reserve Instrument Costs.

"Reserve Instrument Coverage" means, as of any date of calculation, the aggregate amount available to be paid to the Trustee pursuant to the Indenture under all Reserve Instruments.

"Reserve Instrument Fund" means the fund by that name created in the Indenture to be held by the Trustee and administered pursuant to the Indenture.

"Reserve Instrument Limit" means, as of any date of calculation and with respect to any Reserve Instrument, the maximum aggregate amount available to be paid under such Reserve Instrument into the Debt Service Reserve Fund assuming for purposes of such calculation that the amount initially available under each Reserve Instrument has not been reduced or that the amount initially available under each Reserve Instrument has only been reduced as a result of the payment of principal of the applicable Series of Bonds.

"Reserve Instrument Provider" means any bank, savings and loan association, savings bank, thrift institution, credit union, insurance company, surety company or other institution issuing a Reserve Instrument.

"Reserve Instrument Repayment Obligations" means, as of any date of calculation and with respect to any Reserve Instrument Agreement, those outstanding amounts payable by the NMFA under such Reserve Instrument Agreement to repay the Reserve Instrument Provider for payments previously made by it pursuant to a Reserve Instrument. There will not be included in the calculation of Reserve Instrument Repayment Obligations any Reserve Instrument Costs.

"Revenue Fund" means the Subordinated 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.

"S&P" means Standard & Poor's Ratings Group.

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

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

"Security Instrument" means an instrument or other device issued by a Security Instrument Issuer to pay, or to provide security or liquidity for, a Series of Bonds. The term "Security Instrument" includes, by way of example and not of limitation, letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit and other security instruments and credit enhancement or liquidity devices; provided, however, that no such device or instrument is a "Security Instrument" for purposes of the Indenture unless specifically so designated in a Supplemental Indenture authorizing the use of such device or instrument.

"Security Instrument Agreement" means any agreement entered into by the NMFA and a Security Instrument Issuer pursuant to a Supplemental Indenture and/or the applicable portions of a Supplemental Indenture providing for the issuance by such Security Instrument Issuer of a Security Instrument.

"Security Instrument Costs" means, with respect to any Security Instrument, all fees, premiums, expenses and similar costs, other than Security Instrument Repayment Obligations, required to be paid to a Security Instrument Issuer pursuant to a Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument. Such Security Instrument Agreement or Supplemental Indenture will specify any fees, premiums, expenses and costs constituting Security Instrument Costs.

"Security Instrument Issuer" means any bank or other financial institution, insurance company, surety company or other institution issuing a Security Instrument.

"Security Instrument Repayment Obligations" means, as of any date of calculation and with respect to any Security Instrument Agreement, any outstanding amounts payable by the NMFA under the Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument to repay the Security Instrument Issuer for payments previously or concurrently made by the Security Instrument Issuer pursuant to a Security Instrument. There will not be included in the calculation of the amount of Security Instrument Repayment Obligations any Security Instrument Costs. Each Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument will specify any amounts payable under it which, when outstanding, will constitute Security Instrument Repayment Obligations and will specify the portions of any such amounts that are allocable as principal of and as interest on such Security Instrument Repayment Obligations.

"Senior Bonds" means the bonds from time to time issued under the Senior Indenture.

"Senior Indenture" means the General Indenture of Trust and Pledge dated as of June 1, 1995 (as amended and supplemented from time to time), between the NMFA and Bank of Albuquerque, N.A. as trustee.

"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.

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

"State" means the State of New Mexico.

"Subordinate Lien PPRF Revenues" means (i) the PPRF Revenues less the portion of the PPRF Revenues which are used during any applicable period to satisfy the obligations of the NMFA under the Senior Indenture (or required by the terms of the Senior Indenture to be retained by the Trustee under the Indenture) plus (ii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any.

"Subordinated Bond Anticipation Obligations" means Bond Anticipation Obligations, the Principal Installments on which have been subordinated pursuant to the Indenture.

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

"SWAP Counterparty" means a member of the International Swap and Derivatives Association, Inc. which is (i) rated in one of the three top rating categories by at least one of the Rating Agencies and (ii) meeting the requirements (including the rating requirements, if any) of applicable laws of the State. The documentation with respect to each Interest Rate Swap will require the SWAP Counterparty to (i) maintain its rating in one of the three top rating categories by at least one of the Rating Agencies (or to collateralize its obligations to the satisfaction of the Rating Agencies rating the related Bonds) and (ii) meet the requirements of State law (including the rating requirements, if any).

"SWAP Payments" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the SWAP Counterparty by the Trustee on behalf of the NMFA. SWAP Payments do not include any Termination Payments.

"SWAP Receipts" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Trustee for the account of the NMFA by the SWAP Counterparty. SWAP Receipts do not include amounts received with respect to the early termination or modification of an Interest Rate Swap.

"Taxable Bonds" means all Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

"Tax-Exempt Bonds" means all Bonds other than the Taxable Bonds.

"Termination Payments" means the amount payable to the SWAP Counterparty by the Trustee on behalf of the NMFA with respect to the early termination or modification of an Interest Rate Swap. Termination Payments will be payable from and secured by Subordinate Lien PPRF Revenues after payment of amounts then due pursuant to the Indenture.

"Trust Estate" means the property held in trust by or pledged to 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.

"Uncommitted Proceeds" means that portion of the proceeds of a Series of Bonds for which no Loans have been made at the time of issuance of such Series of Bonds.

"Variable Rate Bonds" means, as of any date of calculation, Bonds the terms of which on such date of calculation are such that interest thereon for any future period of time is expressed to be calculated at a rate which is not susceptible to a precise determination.

The Bonds and PPRF Secured Obligations

Execution; Limited Obligation.

The Bonds will be executed on behalf of the NMFA with the manual or official facsimile signature of an Authorized Officer, countersigned with the manual or official facsimile signature of its Secretary and impressed or imprinted thereon the official seal or facsimile thereof of the NMFA. In case any officer, the facsimile of whose signature appears on the Bonds, ceases to be such officer before the delivery of such Bonds, such facsimile will nevertheless be valid and sufficient for all purposes, the same as if he or she had remained in office until delivery. The Bonds, together with interest thereon, will be limited obligations of the NMFA payable, on a parity with the PPRF Secured Obligations (as to the amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments solely from the Trust Estate.

The Bonds will be a valid claim of the respective Registered Owners thereof only against the Trust Estate and the NMFA pledges and assigns the same, FIRST, for the equal and ratable payment of the Bonds, the PPRF Secured Obligations (as to amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments, and, SECOND, for the equal and ratable payment of the Reserve Instrument Repayment Obligations. The Trust Estate will be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, PPRF Secured Obligations as to the amounts deposited to the Revenue Fund, the Security Instrument Repayment Obligations, the SWAP Payments and the Reserve Instrument Repayment Obligations, except as may be otherwise expressly authorized in the Indenture (including the release of Subordinate Lien PPRF Revenues free and clear of the lien of the Indenture upon satisfaction of the payments then due and payable, as provided in the Indenture and the release of Loans, Additional Pledged Loans and Additional Pledged Revenues as provided in the Indenture.) The lien and pledge of the Subordinate Lien PPRF Revenues is subject to the prior lien of the Senior Indenture on the PPRF Revenues in that the PPRF Revenues will first be used to satisfy the requirements of the Senior Indenture and upon the release from the lien of the Senior Indenture the PPRF Revenues will immediately be subject to the lien of the Indenture. The Subordinate Lien PPRF Revenues (including the PPRF

Revenues following the release thereof each year from the lien of the Senior Indenture) and the other amounts pledged under the Indenture are not subject to the lien of the Senior Indenture.

The Bonds, the Security Instrument Repayment Obligations and SWAP Payments are special limited obligations of the NMFA payable solely from the Trust Estate and will be a valid claim of the respective Owners thereof only against the Revenue Fund, the Bond Fund, the Debt Service Reserve Fund, the Debt Service Fund, the Agreement Reserve Fund (except as limited by the Indenture) and other moneys held by the Trustee under the Indenture (except the Rebate Fund), and the Bonds, the Security Instrument Repayment Obligations and SWAP Payments will not constitute or create a general obligation or other indebtedness of the State or (except as expressly provided in an Agreement or Securities) any Governmental Unit within the meaning of any constitutional or statutory debt limitation. The obligation of the NMFA under the Indenture with respect to the PPRF Secured Obligations is a special limited obligation of the NMFA payable solely from the amounts deposited or to be deposited to the Revenue Fund and will be a valid claim of the respective owners of and fiduciaries for the PPRF Secured Obligations only against the Revenue Fund, and the PPRF Secured Obligations will 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 obligation of the NMFA under the Indenture with respect to the Reserve Instrument Repayment Obligations is a special limited obligation of the NMFA payable solely from the Trust Estate after payment of the Bonds, PPRF Secured Obligations (as to the amounts deposited in the Revenue Fund), Security Instrument Repayment Obligations and SWAP Payments and will be a valid claim of the Reserve Instrument Providers against the Trust Estate and will not constitute or give rise to a general obligation or other indebtedness of the State, the NMFA or any other Governmental Unit within the meaning of any constitutional or statutory debt limitation.

No provision of the Bonds, the PPRF Secured Obligations, the Security Instrument Repayment Obligations, the SWAP Payments or Reserve Instrument Repayment Obligation, 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 obligation to pay the Principal of and interest and premium, if any, on the Bonds, the PPRF Secured Obligations, the Security Instrument Repayment Obligations, the SWAP Payments and the Reserve Instrument Repayment Obligations will 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.

The provisions of the Indenture relating to the execution of Bonds may be changed as they apply to the Bonds of any Series by the Supplemental Indenture authorizing such Series of Bonds.

Registration and Exchange of Bonds; Persons Treated as Owners.

Books for the registration and for the transfer of the Bonds as provided in the Indenture will be kept by the Trustee which is constituted and appointed by the Indenture as the Bond Registrar with respect to the Bonds, provided, however, that the NMFA may by Supplemental Indenture select a party other than the Trustee to act as Bond Registrar with respect to the Series of Bonds issued under said Supplemental Indenture. Upon the occurrence of an Event of Default, which would require any Security Instrument Issuer to make a payment under a Security Instrument Agreement, the Bond Registrar will make such registration books available to the Security Instrument Issuer. 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 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, 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 provided in the Indenture. 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.

In each case 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 is not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond has been 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 ceases, determines and is completely discharged, and it is 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 thereafter is 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. The obligation of the Trustee under the Indenture to pay any such amounts to the NMFA will be subject to any provisions of law applicable to the Trustee providing other requirements for disposition of unclaimed property.

PPRF Secured Obligations.

The NMFA may secure PPRF Secured Obligations pursuant to a Supplemental Indenture entered into with the Trustee pursuant to the terms of the Indenture. No bond or other obligations will be considered a PPRF Secured Obligation under the Indenture for any purpose or entitled to any security or benefit under the Indenture, unless specifically identified as such in a Supplemental Indenture. Each PPRF Secured Obligation will contain a provision substantially as follows:

> "This Bond is secured by the New Mexico Finance Authority (the "NMFA") as a PPRF Secured Obligation (as defined in the referenced Indenture) under the Subordinated General Indenture of Trust and Pledge (the "Indenture") between the NMFA and Bank of Albuquerque N.A. (the "Trustee"), as trustee dated as of March 1, 2005 and as provided in the _____________ Supplemental Indenture dated as of _________, _____ (the "Supplemental Indenture") and is entitled to the benefits and is subject to all of the terms and conditions of the Indenture and Supplemental Indenture (as the same may be amended or modified from time to time). The

obligations of the NMFA under the Indenture are special limited obligations payable solely from and to the extent of the sources set forth in the Indenture."

Prior to the execution by the Trustee of a Supplemental Indenture relating to any PPRF Secured Obligation or Obligations, there will have been filed with the Trustee:

(a) a copy of the Indenture (to the extent not theretofore so filed) and the related Supplemental Indenture;

(b) a copy, certified by an Authorized Officer of the NMFA, of the proceedings of the NMFA approving the execution and delivery of the PPRF Secured Obligations and the related Supplemental Indenture, together with a certificate, dated as of the date of execution of such Supplemental Indenture, of an Authorized Officer of the NMFA that such proceedings are still in force and effect without amendments except as shown in such proceedings; and

(c) a certificate of the NMFA to the effect that the Legislature of the State has, to the extent required by law, approved each Project designated for financing under such Supplemental Indenture.

The paying agent for each PPRF Secured Obligation will use its best efforts to notify the Trustee, at least five business days prior to each Interest Payment Date or principal payment date for the PPRF Secured Obligations, if such paying agent has determined that it will not have sufficient moneys available for the payment of amounts due with respect to the PPRF Secured Obligations.

Issuance of Additional Bonds and PPRF Secured Obligations and Additional Senior Bonds.

(a) No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Trust Estate for the payment of the Bonds, PPRF Secured Obligations, the Security Instrument Agreements and Interest Rate Swaps authorized in the Indenture, may be created or incurred without the prior written consent of 100% of the Owners of the Outstanding Bonds, owners of PPRF Secured Obligations and Security Instrument Issuers and SWAP Counterparties; provided however, that additional Senior Bonds or other indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of PPRF Revenues under the Indenture may be issued in accordance with the requirements of the Senior Indenture.

(b) In addition, except for the Initial Bonds, no Additional Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds, the PPRF Secured Obligations, Securities Instrument Repayment Obligations and SWAP Payments authorized in the Indenture out of the Trust Estate may be issued, created or incurred, unless the following requirements have been met:

(i) the NMFA delivers to the Trustee a Cash Flow Statement taking into account the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes and taking into account the execution and delivery of any related Security Instrument Agreement and Interest Rate Swap;

(ii) all payments required by the Indenture to be made into the Bond Fund must have been made in full;

(iii) the proceeds of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes must be used (x) 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), (y) to make Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance) or (z) to finance other projects approved by the NMFA; and

(iv) no Event of Default has occurred and is continuing under the Indenture. The foregoing provisions of this paragraph (iv) will not preclude the issuance of Additional Bonds, PPRF Secured

Obligations or other indebtedness, bonds or notes if (x) the issuance of such Additional Bonds and PPRF Secured Obligations or other indebtedness, bonds or notes otherwise complies with the provisions of the Indenture and (y) such Event of Default will cease to continue upon the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes and the application of the proceeds thereof.

(c) There must be on deposit in each Account of the Debt Service Reserve Fund (taking into account any Reserve Instrument coverage) the full amount required to be accumulated therein at the time of issuance of the Additional Bonds.

The requirements above 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 and outstanding PPRF Secured Obligations being lowered.

Covenant Against Creating or Permitting Liens.

Except for (A) the pledge of the PPRF Revenues pursuant to the Senior Indenture and (B) the pledge of the Trust Estate to secure payment of the Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments, and Reserve Instrument Repayment Obligations under the Indenture, 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, the PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments and (ii) Subordinate Lien PPRF Revenues not needed for payments under the Indenture in any Bond Fund Year may be released to the NMFA free and clear of the lien of the Indenture as provided in the Indenture.

Open Market Purchases of Bonds

Purchases of Outstanding Bonds on the open market may be made by the NMFA at public or private sale as, when and at such prices as the NMFA may in its discretion determine. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Bond Fund for the payment of interest on such Bonds on the next following Interest Payment Date. Any Bonds so purchased will be cancelled by the Trustee and surrendered to the NMFA or destroyed and will not be reissued.

Covenants of the NMFA

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 will 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, PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Additional Pledged Loans, Security Documents and Securities; Exceptions; Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Additional Pledged Loans, Security Documents and Securities, except as specifically authorized in the Indenture in furtherance of the security for the Bonds, PPRF Secured Obligations, the Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan 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 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 and in the Senior Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 will cause a financing statement to be filed with the Secretary of State of the State, and in such other manner and at such places as may be required by law fully to protect the security interest of the Owners of the Bonds, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 are reasonably requested by the Trustee for the protection of the interests of the Bond Owners, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds, the PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations executed and delivered under the Indenture have 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 or any part thereof until the principal of and interest on the Bonds, the PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations have been paid.

Rights Under Loan Agreements, Security Documents and Securities. The Loan Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a related Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions in the Indenture, the Loan 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 under the Indenture.

Tax-Exempt Bonds. The NMFA covenants and agrees to and for the benefit of the Owners of the Tax-Exempt Bonds that the NMFA (i) will not take any action that would cause interest on the Tax-Exempt 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 Tax-Exempt Bonds in order to preserve the exemption from federal income taxation of interest on the Tax-Exempt Bonds.

State Pledge of Non-Impairment. The State has pledged to and agreed with the holders of the Bonds and the owners of PPRF Secured Obligations (as obligations 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 Bond holders and the owners of PPRF Secured Obligations or in any way impair the rights and remedies of those holders until the Bonds and the PPRF Secured Obligations 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.

Financing Loan Agreements and Securities

Restrictions. The following restrictions will apply to Loans made by the NMFA under the Indenture:

(a) The aggregate principal amount of each Loan Agreement and Security will be in whole multiples of Authorized Denomination.

(b) Each Governmental Unit will agree not to take or permit any action which would cause the respective Agreement or the related Series of Bonds to be "arbitrage bonds" under Sections 103 and 148 of the Code.

(c) Amounts disbursed from each Governmental Units' Account within the Program Fund will be used to finance the costs of the related Project and related expenditures on behalf of the Governmental Unit. All funds on deposit in a Governmental Unit's Program Account may be disbursed to fund a capital projects account held by or on behalf of the Governmental Unit, provided that the Governmental Unit establishes an account for such moneys separate from its other funds, and expressly acknowledges and agrees that its use of such moneys is subject to the requirements and restrictions set forth in the Indenture.

(d) Each Governmental Unit agrees to pay the Rebatable Arbitrage relating to its Accounts in the Program Fund, the Agreement Reserve Fund and the Debt Service Fund.

(e) At the time of execution and delivery of each Agreement, the related Governmental Unit will execute and deliver a certificate to the effect that the Governmental Unit (i) will not take any action that would cause the 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 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 Agreement in order to preserve the exemption from federal income taxation of the interest on the Bonds.

The provisions of Subsections (b), (d) and (e) above will not apply to Agreements financed with proceeds of Taxable Bonds.

Waiver of Compliance With Program Requirements. With the Approval of Bond Counsel, any of the requirements of the Indenture may be waived or modified by the Trustee and the NMFA

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 on the related Loan (the "Interest Component") 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") with respect to the related Loan, all as set forth in the related Agreement. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on or before each Loan Payment Date. The Interest Component of Loan Payments for each 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 or Pledge Notification. The Program Cost Component may be included in the interest rate applicable to a Loan.

(b) Agreement and Term. The "Term" of an Agreement will be defined in the Agreement.

(c) Agreement Payment. Agreements will provide that the related Governmental Unit will pay Loan Payments to the NMFA for remittance to Trustee. 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 the NMFA for remittance to and to be held by the Trustee.

(d) Prepayments. Agreements may contain a provision permitting the Governmental Unit to prepay the Principal Component of Loan Payments, in accordance with the provisions of the Agreement subject to any conditions set forth in the related Supplemental Indenture or Agreement. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination.

(e) Use of Reserve at Final Payment. At the time of payment in full under 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 Agreement.

Establishment and Use of Funds

Establishment of Funds; Accounts Within Funds. There are established 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 or Project;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement;

(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 (other than Agreements related to Taxable Bonds);

(g) a Subordinate Lien PPRF Revenue Fund (in the Indenture the "Revenue Fund") established as an account of the Public Project Revolving Fund;

(h) a Debt Service Reserve Fund and within such fund a separate Account for each Series of Bonds for which a Debt Service Reserve Requirement is established; and

(i) a Reserve Instrument Fund.

In addition to the foregoing, the NMFA may establish subaccounts within the Program Fund, the Agreement Reserve Fund, the Debt Service Reserve Fund, the Reserve Instrument Fund or the Debt Service Fund.

Program Fund. Except with respect to Reimbursement Bonds, proceeds of which may be deposited directly to the Public Project Revolving Fund, upon the issuance of a Series of Bonds, the Trustee will deposit the amount specified in the related Supplemental Indenture in the Program Fund and except in the case of Uncommitted Proceeds, will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement, Supplemental Indenture or Pledge Notification. Upon the issuance of a Series of Bonds for which there are Uncommitted Proceeds, the Trustee should deposit such Uncommitted Proceeds in the Program Fund until such time that the Trustee receives a Pledge Notification that identifies the Agreement or Project to which Uncommitted Proceeds are to be allocated and at such time, the Trustee will allocate such Uncommitted Proceeds to the respective Accounts within the Program Fund as provided in each Agreement, Supplemental Indenture or Pledge Notification. Disbursements from each Account within the Program Fund will be made as provided below and may be made in stages or in a single disbursement for the purpose of funding a Governmental Unit's capital projects account.

Application of Loan Payments. Pursuant to the Loan Agreements and Securities and except as otherwise provided in a Supplemental Indenture, the Loan Payments payable under the Indenture will be paid directly to the NMFA for remittance to the Trustee. Any moneys received by the Trustee directly from a Governmental Unit will be remitted to the NMFA for deposit in the NMFA debt service account or other appropriate account for the Governmental Unit or other borrower from which the Trustee received such moneys.

The Trustee will deposit all Loan Payments from the Loan Agreements and Securities immediately upon receipt thereof from the NMFA, 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 (it being anticipated that each Governmental Unit will deposit an amount at least equal to the Loan Payments falling due under the related Loan Agreement or Securities with the NMFA, which will remit that amount to the Trustee for allocation to the related Account in the Debt Service Fund).

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.

Third: to the payment of Program Costs (to the extent allocable to such Agreement).

All income earned from the investment of moneys in the respective Accounts (i) held by the NMFA and (ii) 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 NMFA 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.

At least once each year, and more frequently if required pursuant to the provisions of a Supplemental Indenture, the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account 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, as provided in the Agreement and subject to the following:

(i) 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

(ii) Any other excess will be deposited into the Revenue Fund.

Debt Service Fund. When required pursuant to the provisions of a Supplemental Indenture, the Trustee will transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay principal of, and premium, if any, and interest on the Bonds, any Security Instrument Repayment Obligations, SWAP Payments (less any SWAP Receipts) and Reserve Instrument Repayment Obligations becoming due, to the extent amounts are on deposit therein for such purpose. When any Bond is called for redemption because a Governmental Unit has made a Prepayment under its Loan Agreement or Securities, the Trustee will, on the redemption date for such Bond, transfer the amount necessary for such redemption from the related Account in the Debt Service Fund to the Bond Fund.

The Trustee will keep the Debt Service Fund and each Governmental Unit's Account therein separate and apart from all other Funds and Accounts held by it.

In the event that a subaccount of a Governmental Unit's Account within the Debt Service Fund is created for an Additional Pledged Loan, amounts representing principal of and interest on such Additional Pledged Loan will be deposited to the subaccount within the Debt Service Account and will be transferred on each payment date for such Additional Pledged Loan from the Debt Service Fund to the Revenue Fund. Amounts paid under an Additional Pledged Loan for replenishment of a related subaccount of the Agreement Reserve Fund will be deposited therein upon receipt.

Agreement Reserve Fund. The Trustee will deposit the amount, if any, set forth in a Supplemental Indenture or Pledge Notification to the Agreement Reserve Fund and from the source specified in such

Supplemental Indenture or Pledge Notification and will allocate such amount to the respective Accounts as provided in each Agreement.

If the amounts on deposit in any Governmental Unit's Account of the Debt Service Fund are insufficient for payments coming due under the related Agreement on the next Loan Payment Date, 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), the Trustee will transfer to such Governmental Unit's Account in the Debt Service Fund from the related Agreement Reserve Account, an amount sufficient, together with amounts in the related Debt Service Account, to pay the Principal Component and the Interest Component due under such Agreement on such Loan Payment Date.

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 Account of the Debt Service Fund and credited against payments next coming due under the related Agreement.

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 Agreement.

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 instruments in lieu of a cash deposit to the Agreement Reserve Fund, as more fully described in the Supplemental Indenture and the Agreement.

The Trustee will keep the Agreement Reserve Fund and each Governmental Unit's Account therein separate and apart from all other Funds and Accounts held by it.

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 the related Account of the Debt Service Fund.

In the event that a subaccount of a Governmental Unit's Account within the Agreement Reserve Fund is created for an Additional Pledged Loan, such amounts will be used, in a manner similar to that described above, to secure payment of principal of and interest on such Additional Pledged Loan. In the event that amounts paid by the related Governmental Unit for the payment of principal of and interest on such Additional Pledged Loan are insufficient to make such payments on the fifth day preceding the payment date for such Additional Pledged Loan, amounts on deposit in the related subaccount of the Agreement Reserve Fund will be transferred to the subaccount within the Debt Service Fund and used toward payments on such Additional Pledged Loan on such payment date. Amounts paid under an Additional Pledged Loan for replenishment of the related subaccount of the Agreement Reserve Fund will be deposited therein upon receipt.

Bond 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 due. 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. There will also be deposited to the Bond Fund from the Debt Service Fund the amounts described in the Indenture and from the Revenue Fund the amounts described in the Indenture. 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.

The Trustee will pay out of the Bond Fund to the Security Instrument Issuers and to the SWAP Counterparties, if any, that have issued Security Instruments or Interest Rate Swaps, respectively, with respect to such Series of Bonds, an amount equal to any Security Instrument Repayment Obligations and SWAP Payments (net of SWAP Receipts) as the case may be, then due and payable to such Security Instrument Issuers or SWAP Counterparties, as applicable. Except as otherwise specified in a related Supplemental Indenture, all such Security Instrument Repayment Obligations and SWAP Payments will be paid on a parity with the payments to be made with respect to principal of and interest on the Bonds; provided that amounts paid under a Security Instrument will be applied only to pay the related Series of Bonds. If payment is so made on Pledged Bonds held for the benefit of the Security Instrument Issuer, a corresponding payment on the Security Instrument Repayment Obligation will be deemed to have been made (without requiring an additional payment by the NMFA) and the Trustee will keep its records accordingly

The NMFA authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay Debt Service on the Bonds and Security Instrument Repayment Obligations and to pay the SWAP Payments as the same become due and payable and to make said funds so withdrawn available to the Trustee and any Paying Agent for the purpose of paying said Debt Service. In the event that Debt Service on a Series of Bonds is due more frequently than Loan Payments and amounts on deposit in the Bond Fund are insufficient therefor, amounts on deposit in the Revenue Fund will be used to pay Debt Service on such Series of Bonds, and upon receipt of the Loan Payments, the Revenue Fund will be reimbursed for such payments, as directed by the NMFA. Amounts remaining on deposit in the Bond Fund at the end of the Bond Fund Year after the payment of amounts due, as described above for such Bond Fund Year, will be transferred to the Revenue Fund.

The Trustee will deposit to the Bond Fund all moneys transferred from the Debt Service Reserve Fund or from a Reserve Instrument or Instruments then in effect as provided in the Indenture.

Use of Debt Service Reserve Fund. Except as otherwise provided in the Indenture and subject to the immediately following sentence, moneys in each account in the Debt Service Reserve Fund will at all times be maintained in an amount not less than the applicable Debt Service Reserve Requirement, if any. In calculating the amount on deposit in each account in the Debt Service Reserve Fund, the amount of any Reserve Instrument Coverage will be treated as an amount on deposit in such account in the Debt Service Reserve Fund. Each Supplemental Indenture authorizing the issuance of a Series of Bonds will specify the Debt Service Reserve Requirement, if any, applicable to such Series, which amount will either be (i) deposited immediately upon the issuance and delivery of such Series from (a) proceeds from the sale thereof or from any other legally available source, or (b) by a Reserve Instrument or Instruments, or (c) any combination thereof, (ii) deposited from legally available moneys over the period of time specified therein, or (iii) deposited from any combination of (i) and (ii) above; provided however, the foregoing provisions will be subject to the requirements of any Security Instrument Issuer set forth in any Supplemental Indenture. If at any time the amount on deposit in any account of the Debt Service Reserve Fund is less than the minimum amount to be maintained therein under the Indenture, the NMFA is required, pursuant to the Indenture and the provisions of any Supplemental Indenture, to make payments totaling the amount of any such deficiency directly to the Trustee for deposit into the Debt Service Reserve Fund.

In the event of a deficiency in the Bond Fund for a Series of Bonds, the Trustee will transfer moneys on deposit in the related Account of the Debt Service Reserve Fund to the Bond Fund to make up such deficiency.

In the event funds on deposit in an account of the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund as aforementioned, and there is insufficient cash available in such account of the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such Series are in effect, the Trustee will immediately make a demand for payment on such Reserve Instruments, to the maximum extent authorized by such Reserve Instruments, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund. Thereafter, the NMFA will be obligated to reinstate the Reserve Instrument as provided in the Indenture.

No Reserve Instrument will be allowed to expire or terminate while the related Series of Bonds are Outstanding unless and until cash has been deposited into the related account of the Debt Service Reserve Fund, or a new Reserve Instrument has been issued in place of the expiring or terminating Reserve Instrument, or any combination thereof in an amount or to provide coverage, as the case may be, at least equal to the amount required to be maintained in the related account of the Debt Service Reserve Fund.

Moneys at any time on deposit in any Account of the Debt Service Reserve Fund in excess of the amount required to be maintained therein (taking into account the amount of related Reserve Instrument Coverage) will be transferred by the Trustee to the Bond Fund at least once each year.

Moneys on deposit in any Account of the Debt Service Reserve Fund will be used to make up any deficiencies in the Bond Fund only for the Series of Bonds secured by said account and any Reserve Instrument will only be drawn upon with respect to the Series of Bonds for which such Reserve Instrument was obtained.

The NMFA may, upon obtaining approving opinion of bond counsel to the effect that such transaction will not adversely affect the tax-exempt status of any outstanding Bonds, replace any amounts required to be on deposit in the Debt Service Reserve Fund with a Reserve Instrument.

Use of Reserve Instrument Fund. There will be paid into the Reserve Instrument Fund the amounts required by the Indenture and by a Supplemental Indenture to be so paid. The amounts in the Reserve Instrument Fund will, from time to time, be applied by the Trustee on behalf of the NMFA to pay the Reserve Instrument Repayment Obligations which are due and payable to any Reserve Instrument Provider under any applicable Reserve Instrument Agreement.

Use of Revenue Fund. Pursuant to the Senior Indenture, the PPRF Revenues which are not used to satisfy obligations of the NMFA under the Indenture or required by the terms thereof to be retained by the trustee under the Indenture, are to be released from the lien and pledge of the Senior Indenture on June 1 of each year (being the last day of each bond fund year under the Indenture) and the NMFA covenants and agrees that such amounts are and will be subject to the lien of the Indenture. During each Bond Fund Year, (i) all PPRF Revenues released from the lien of the Senior Indenture will be paid to the Trustee immediately upon the release thereof on June 1 of each year, (ii) all amounts received as Additional Pledged Revenues will be immediately deposited with the Trustee and (iii) all payments representing principal and interest from Additional Pledged Loans will be paid immediately upon receipt thereof by the NMFA to the Trustee, and all of the same will be accounted for and maintained by the Trustee in the Revenue Fund, which fund will be kept separate and apart from all other accounts of the Trustee and which, prior to transfer of any excess therefrom pursuant to the Indenture, will be expended and used by the Trustee only in the manner and order of priority specified below.

(a) (i) If the amounts on deposit in the Bond Fund are insufficient for payments of principal of and interest on the Bonds due on such date or if a deficiency has occurred in the Bond Fund that has not otherwise been rectified, the Trustee will immediately transfer from the Revenue Fund to the Bond Fund, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal of and interest on the Bonds due on such date and to rectify any such deficiency then still existing;

(ii) if the Trustee receives notice from the paying agent for any PPRF Secured Obligation that the amounts available for payment of principal and interest with respect to such PPRF Secured Obligation then due on such date will be insufficient or if a deficiency in the payment of any PPRF Secured Obligation has occurred that has not otherwise been rectified, the Trustee will immediately transfer from the Revenue Fund to such paying agent an amount sufficient, together with amounts otherwise available for such purpose, to pay the principal and interest then due with respect to the PPRF Secured Obligations on such date and to rectify any such deficiency then still existing; and

(iii) if the amounts on deposit in the Bond Fund are insufficient for payments then coming due on such date with respect to any Security Instrument Repayment Obligations or SWAP Payments (net of SWAP Receipts) then due pursuant to any Security Instrument Agreements or Interest Rate Swaps or if there has been a deficiency in the payment of any Security Instrument Repayment Obligations or SWAP Payments that has not been rectified, the Trustee will immediately transfer from the Revenue Fund to the Bond Fund, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the amounts due on the Security Instrument Repayment Obligations and the SWAP Payments (net of SWAP Receipts) then due on such date and to rectify any such deficiency then still existing.

The transfers required by (i), (ii) and (iii) above are to be made on a parity basis. In the event that the amounts available for transfer pursuant to (i), (ii) and (iii) above are insufficient therefor the Trustee will make such transfers ratably according to the amounts due.

(b) Subject to making the transfers set forth in Subsection (a) above, the NMFA will make the following transfers to the Trustee:

(i) To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (A) to the Accounts in the Debt Service Reserve Fund any amounts required by the Indenture and by any Supplemental Indenture to accumulate therein the applicable Debt Service Reserve Requirement with respect to each Series of Bonds at the times and in the amounts provided in the Indenture and in any Supplemental Indenture and (B) if funds have been withdrawn from an Account in the Debt Service Reserve Fund or any Account in the Debt Service Reserve Fund is at any time funded in an amount less than the applicable Debt Service Reserve Requirement, the NMFA will transfer from the Revenue Fund in such Account(s) in the Debt Service Reserve Fund in an amount sufficient to restore such Account(s) within one year with twelve (12) substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Debt Service Reserve Requirement); or a ratable portion (based on the amount to be transferred pursuant to the Indenture) of remaining amounts if less than the amount necessary; and

(ii) Equally and ratably to the Accounts of the Reserve Instrument Fund, with respect to all Reserve Instruments which are in effect and are expected to continue in effect after the end of such month, such amount from the Revenue Fund, or a ratable portion (based on the amount to be transferred pursuant to the Indenture) of the amount so remaining if less than the amount necessary, that is required to be paid, on or before the next such transfer or deposit from the Revenue Fund into the Reserve Instrument Fund, to the Reserve Instrument Provider pursuant to any Reserve Instrument Agreement, other than Reserve Instrument Costs, in order to cause the Reserve Instrument Coverage to equal the Reserve Instrument Limit within one year from any draw date under the Reserve Instrument.

(c) In the event that funds are withdrawn from an Account in the Agreement Reserve Fund, or any Account in the Agreement Reserve Fund is at any time funded in an amount less than the applicable Agreement Reserve Requirement, the NMFA will transfer for deposit in such Account(s) in the Agreement Reserve Fund sufficient Subordinate Lien PPRF Revenues, Agreement Revenues, Additional Pledged Revenues and revenues from Additional Pledged Loans in amount to restore such Account(s) within one year with twelve (12) substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Agreement Reserve Requirement); or a ratable portion of remaining Subordinate Lien PPRF Revenues, Agreement Revenues, Additional Pledged Revenues and revenues from Additional Pledged Revenues and revenues from Additional Pledged Loans if less than the amount necessary.

(d) Subject to making the foregoing transfers to the Bond Fund and to the paying agent for the PPRF Secured Obligations and to the Security Instrument Issuers and to the SWAP Providers and to the Reserve Instrument Providers, on June 16 of each year, the NMFA will be entitled to direct the Trustee in writing to release to the NMFA the balance on deposit in the Revenue Fund and the Trustee will transfer the such amount to the NMFA and the NMFA may use such balance for:

(i) deposit to the Public Project Revolving Fund as required by the Act;

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

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

(iv) for any other lawful purpose, including (A) payment of Program Costs for Bonds issued under the Indenture and similar costs for PPRF Secured Obligations, (B) replacement of reserves for Bonds issued under the Indenture or PPRF Secured Obligations, and (C) payment of Termination Payments;.

provided, however, that notwithstanding the foregoing there will be retained in the Revenue Fund an amount, after giving credit for available amounts in all accounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, sufficient to make payments of all Debt Service requirements on all Bonds, all Security Instrument Repayment Obligations, all SWAP Payments and all Reserve Instrument Repayment Obligations coming due in the then current Bond Fund Year; provided further, that once additional moneys are amounts retained in the Revenue Fund may be released from the lien of the Indenture but only to the extent of additional moneys deposited into the Bond Fund. For purposes of calculating the Debt Service on Variable Rate Bonds for purposes of the Indenture, the provisions of clauses (1), (2) and (3) of the definition of "Debt Service" in the Indenture will apply.

(e) The NMFA may, but is not obligated to, use any PPRF Revenues of the NMFA to satisfy its obligations under the Indenture.

Subordinate Lien PPRF Revenues. Additional Pledged Revenues, Revenues from Additional Pledged Loans and Agreement Revenues to be Held for All Bond Owners and Owners of PPRF Secured Obligations. All of the Subordinate Lien PPRF Revenues, Additional Pledged Revenues, revenues from Additional Pledged Loans and the Agreement Revenues will, until applied as provided in the Indenture, be held by the Trustee or the NMFA, as applicable, only for the benefit of the Owners of Bonds, Owners of PPRF Secured Obligations (as to Subordinate Lien PPRF Revenues only), Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers.

Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Trustee or the NMFA for account to any fund referred to in any provision of the Indenture will be held by the Trustee and the NMFA, as the case may be, in trust. Moneys held by the NMFA as servicer of the Agreements and the Additional Pledged Loans until paid to the Trustee will be kept separate and apart from all other accounts of the NMFA, who will hold and administer such moneys as agent for the Trustee and such moneys will at all times be subject to the lien and trust imposed by the Indenture.

Repayment to Governmental Units from Debt Service Fund. Any amounts remaining in any Governmental Unit's Debt Service Account or Agreement Reserve Account after payment in full of the principal of and premium, if any, and interest on the related Agreement, the fees, charges, and expenses of Trustee, all other amounts required to be paid under the Indenture will be paid immediately to the Governmental Unit as an overpayment of Loan Payments.

Trustee under the Indenture. The Trustee under the Indenture and the trustee under the Senior Indenture will at all times be one and the same entity.

Investment of Moneys

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established by the Indenture or (ii) by the NMFA as agent for the Trustee, will be invested by the Trustee or the NMFA, as the case may be, in Permitted Investments in accordance with the Indenture. 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 Agreement when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund, the Debt Service Reserve 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 by Article VI of 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.

Neither the NMFA nor the Trustee will 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 and PPRF Secured Obligations, the principal of and premium, if any, and interest due or to become due on the Bonds and PPRF Secured Obligations 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 Indenture, and if the NMFA has paid or has caused to be paid to (i) all Security Instrument Issuers all Security Instrument Repayment Obligations due and payable under all Security Instruments, (ii) all SWAP Counterparties all SWAP Payments due and payable under all Interest Rate Swaps, and (iii) all Reserve Instrument Providers all Reserve Instrument Repayment Obligations due and payable under all Reserve Instrument Agreements, then the estate and rights granted by the Indenture will cease, terminate 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 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 will 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.

All moneys so deposited with the Trustee (or other escrow agent) as provided in the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amounts and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee pursuant to the Indenture which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys has 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.

Notwithstanding anything in the Indenture to the contrary, all moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the 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 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 Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the 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 Issuers 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 Issuers 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 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 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 under the Indenture or otherwise; or

(c) if the NMFA for any reason is 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 Trust Estate, 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 is not 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 enacted after the effective date of the Indenture, if the claims of such creditors are or may be under any circumstances payable from the Trust Estate; 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 are 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 will not be 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 in the Indenture or any Supplemental Indenture thereto on the part of the NMFA to be performed, other than as set forth in the Indenture, 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 under the Indenture.

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, Additional Pledged Loans and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds and, as provided in the Indenture, the owners of the PPRF Secured Obligations 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 or Additional Pledged Loans (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 PPRF Secured Obligations, the Agreements, the Additional Pledged Revenues, the Additional Pledged Loans 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 Subordinate Lien PPRF Revenues, Additional Pledged Revenues, Agreement Revenues and revenues attributable to Additional Pledged Loans pledged under the Indenture or pursuant to the Agreements and any Security Documents; or

(f) terminate the provisions of the Indenture providing for NMFA collection, deposit and loan administration functions in connection with Loans and Additional Pledged Loans and cause such payments to be made directly to the Trustee.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners of the Bonds or PPRF Secured Obligations 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 of the Bonds or PPRF Secured Obligations 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 is 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 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 of the Bonds or PPRF Secured Obligations in the Indenture is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be 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 NMFA for Payments of Governmental Units. Other than in its capacity as servicer of Loans and Additional Pledged Loans, the NMFA will not have any obligation or liability to the Trustee or the Owners of the Bonds or PPRF Secured Obligations with respect to the payment when due of the Loan Payments by the Governmental Units, or with respect to the performance by the Governmental Units of the other agreements and covenants required to be performed by them contained in the Loan Agreements, Additional Pledged Loans and Securities, the related Security Documents, or in the Indenture, or with respect to the performance by the Trustee or any right or obligation required to be performed by them contained in the Indenture.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and Additional Pledged Loans and the performance of the other agreements and covenants required to be performed by it contained in the Agreements, Additional Pledged Loans and Security Documents, the Governmental Units will not have any obligation or liability to the Owners of Bonds and PPRF Secured Obligations 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, Additional Pledged Loans or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond or PPRF Secured Obligations will have 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 under the Indenture, at law or in equity, unless;

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default (in the case of the Bonds) or of the payment default or other default pursuant to the Indenture (in the case of PPRF Secured Obligations);

(b) the Owners of Bonds and PPRF Secured Obligations of not less than a majority of the aggregate principal amount of the Bonds Outstanding and PPRF Secured Obligations then outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default (in the case of the Bonds) or of the payment default or other default pursuant to the Indenture (in the case of PPRF Secured Obligations) 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 of Bonds and PPRF Secured Obligations 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 and Owners of PPRF Secured Obligations. Notwithstanding the foregoing, the Owner of any Bond and the Owners of PPRF Secured Obligations has the right, which is absolute and unconditional, to receive payment of interest on such Bond or PPRF Secured Obligation when due in accordance with the terms thereof and of the Indenture and the principal of such Bond or PPRF Secured Obligation at the stated maturity thereof 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 and PPRF Secured Obligations outstanding have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, 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 or PPRF Secured Obligations.

<u>Application of Funds Upon Default</u>. All moneys received by the Trustee or by any receiver pursuant to any right given or action taken under the 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, and after giving effect to the parity claim of PPRF Secured Obligations to amounts on deposit in the Revenue Fund, 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, and after giving effect to the parity claim of PPRF Secured Obligations to amounts on deposit in the Revenue Fund, will be applied as follows:

(a) To the payment of the Principal of, premium, if any, and interest then due and payable on the bonds as follows:

(i) Unless the principal of all Bonds has become due and payable, all such moneys will be applied:

<u>First</u>: 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 is not 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;

<u>Second</u>: To the payment to the persons or entity entitled thereto of the unpaid principal of 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;

Third: To be held for the payment to the persons entitled thereto as the same becomes 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.

(ii) If the principal of all the Bonds has become due 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.

(b) To the payment of all obligations then due and payable to any Security Instrument Issuers under any applicable Security Instrument Agreement.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys will be applied at such times, and from time to time, as the Trustee determines, 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 will deem 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 is not 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 under the Indenture 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 have 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, the Security Instrument Issuers 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.

Defaults Relating to PPRF Secured Obligations.

A default with respect to the PPRF Secured Obligations is not (in and of itself) an Event of Default under the Indenture and the Owners of the PPRF Secured Obligations will be limited to their right to payment from Subordinate Lien PPRF Revenues and performance by the NMFA of its covenants and agreements under the Indenture on their behalf. In the event that NMFA fails to make payment on any PPRF Secured Obligation or defaults in the due and punctual performance of any other covenant, condition or provision of the Indenture relating thereto, the Trustee may and upon the written request of the Owners of a majority of the PPRF Secured Obligations (or any fiduciary therefore) and upon receipt of indemnity to its satisfaction, will in its own name exercise any of the rights and remedies provided in the Indenture to the extent applicable to the collection and application of Subordinate Lien PPRF Revenues.

The Owners of PPRF Secured Obligations will be secured by and entitled to a parity claim on all Subordinate Lien PPRF Revenues deposited to or required to be deposited to the Revenue Fund. In the exercise of remedies under the Indenture relating to the collection and application of Subordinate Lien PPRF Revenues, the Trustee will act for the benefit of the Owners of the PPRF Secured Obligations on the same basis as for Owners of Bonds.

The Trustee

Fees, Charges and Expenses of the Trustee. The Trustee will be entitled to payment and reimbursement for reasonable fees for its services rendered under the Indenture and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. The Trustee will be entitled to payment and reimbursement for the reasonable fees and charges of the Trustee as Paying Agent and Registrar for the Bonds as provided in the Indenture. 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 foregoing advances, fees, costs and expenses incurred.

Notice to Owners if Event of Default Occurs. Except as otherwise required by the Indenture, the Trustee will give to the Owners of Bonds and PPRF Secured Obligations notice of each default under the Indenture known to the Trustee within ninety days after the occurrence thereof, unless such default has been remedied or cured before the giving of such notice; provided that, except in the case of default in the payment of principal of or premium, if any, or interest on any of the Bonds or PPRF Secured Obligations, the Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Owners. Each such notice of default will be given by the Trustee by mailing written notice thereof to all holders of Bonds and PPRF Secured Obligations then outstanding whose names appear on the list of Owners as provided in the Indenture and, if required by the Trustee, such Owners have offered the Security or indemnity required by the Indenture.

Intervention by the Trustee. In any judicial proceeding to which the NMFA or a Governmental Unit is a party and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interest of Owners of the Bonds, the Trustee may intervene on behalf of Owners and will do so if requested in writing by the Owners of a majority in the aggregate principal amount of Bonds then outstanding and, if required by the Trustee, such Owners have offered the Security or indemnity required by the Indenture.

Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, will be and become successor to the Trustee under the Indenture and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding.

Resignation by the Trustee. The Trustee and any successor to the Trustee may at any time resign from the trusts created in the Indenture by giving thirty days' written notice by registered or certified mail to the NMFA and to the owner of each Bond as shown by the list of Owners required by the Indenture to be kept by the Trustee, and such resignation will take effect only upon the appointment of a successor Trustee by the Owners or by the NMFA.

Removal of the Trustee. The Trustee may be removed at any time, by the NMFA (except during the continuance of an Event of Default) by written notice signed by the NMFA or by an instrument or concurrent instruments in writing delivered to the Trustee and to the NMFA and signed by the Owners of a majority in aggregate principal amount of Bonds then outstanding. Any removal will take effect upon the appointment of a successor Trustee.

Appointment of Successor Trustee. In case the Trustee under the Indenture resigns or is removed, or is dissolved, or is in course of dissolution or liquidation, or otherwise become incapable of acting under the Indenture, or in case it is taken under the control of any public officer or officers, or of a receiver appointed by a court, the NMFA covenants and agrees to appoint a successor Trustee. If in a proper case no appointment of a successor Trustee is made by the NMFA pursuant to the Indenture within 45 days after the Trustee gives NMFA written notice of resignation or after a vacancy in the office of the Trustee has occurred by reason of its inability to act or its removal, the Trustee, or any Bondholder may apply to any court of competent jurisdiction to appoint a successor to itself as Trustee. Said court, after such notice, if any, as such court may deem proper, thereupon may appoint a successor Trustee. Every such Trustee appointed pursuant to the Indenture will be a trust company or bank in good standing having a reported capital and surplus of not less than $50,000,000 if there be such an institution willing, qualified and able to accept the trust upon customary terms.

Concerning Any Successor Trustee. Every successor Trustee appointed under the Indenture will execute, acknowledge and deliver to its predecessor and also to the NMFA an instrument in writing accepting such appointment under the Indenture, and thereupon such successor, without any further act, deed or conveyance, will become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor will, nevertheless, on the written request of the NMFA, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor under the Indenture; and every predecessor Trustee will deliver all securities and moneys held by it as Trustee under the Indenture to its successor. Should any instrument in writing from the NMFA be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties vested by the Indenture or intended to be vested in the predecessor, any and all such instruments in writing will, on request, be executed, acknowledged and delivered by the NMFA. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Indenture, together with all other instruments provided for in the Indenture, will be filed or recorded by the successor Trustee in each recording office where the Indenture has been filed or recorded.

Supplemental Indentures, Amendments to Agreements, Amendments and Supplements to Senior Indenture

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 the Initial Obligations or Additional Bonds and PPRF Secured Obligations in accordance with 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 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 the Rating Agencies that such amendments will not result in the rating on the Bonds and PPRF Secured or any Governmental Unit or to grant additional powers or rights to the Trustee;

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred in the Indenture upon the NMFA 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 Indenture and subject to the terms and provisions contained in the Indenture, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds and PPRF Secured Obligations then outstanding 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 is 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 the Indenture permits, or is construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond issued under the Indenture, 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 or PPRF Secured Obligations over any other Bond or Bonds or PPRF Secured Obligations, or (iv) a reduction in the aggregate principal amount of the Bonds or PPRF Secured Obligations 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 and PPRF Secured Obligations 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.

Amendment of Agreements and Security Documents. The NMFA has the right to amend an Agreement, Additional Pledged Loan documents 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 in the Indenture 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 and PPRF Secured Obligations following such amendment being lower than the rating on the Bonds and PPRF Secured Obligations 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 owners of any PPRF Secured Obligations; or

(iv) to make any other change or amendment upon delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

If the NMFA or a Governmental Unit proposes 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.

Amendments and Supplements to Senior Indenture. The NMFA will be permitted to amend and supplement the provisions of the Senior Indenture as provided therein including amendments and supplements permitting the issuance of additional Senior Bonds under the Indenture, provided that without the prior written consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture and the owners of PPRF Secured Obligations, the NMFA and the Trustee will not amend or supplement the Senior Indenture to change the time for release of the PPRF Revenues from the lien of the Senor Indenture or to preclude such release as contemplated under the Indenture.

Miscellaneous

Consents, etc. of Owners. Any consent, request, direction, approval, objection or other instrument required by the Indenture to be signed and executed by the Owners may be in any number of concurrent documents and may be executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, will be sufficient for any of the purposes of the Indenture, and will be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by an affidavit of any witness to such execution.

(b) The fact of ownership of Bonds and the amount or amounts, numbers and other identification of such Bonds, and the date of holding the same, will be proved by the registration books of the Trustee maintained by the Trustee pursuant to the Indenture.

(c) The fact of ownership of PPRF Secured Obligations and the amount or amounts, numbers and other identification of such PPRF Secured Obligations, and the date of holding the same, will be proved by the registration books of the registrar for such obligations or otherwise as the NMFA may determine.

For all purposes of the Indenture and of the proceedings for the enforcement thereof, such person will be deemed to continue to be the Owner of such Bond or owner of PPRF Secured Obligations until the Trustee receives notice in writing to the contrary.

Limitation of Rights. With the exception of any rights expressly conferred in the Indenture, nothing expressed or mentioned in or to be implied from the Indenture or the Bonds or PPRF Secured Obligations is intended or is to be construed to give to any person or company other than the parties thereto, the Governmental Units and the Owners of the Bonds or owners of any PPRF Secured Obligations, any legal or equitable right, remedy or claim under or with respect to the Indenture or any covenants, conditions and provisions therein contained; the Indenture and all of the covenants, conditions and provisions thereof being intended to be and being for the sole and exclusive benefit of the parties thereto, the Governmental Units and the holders of the Bonds and PPRF Secured Obligations as provided in the Indenture.

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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 2005F 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

INFORMATION CONCERNING THE SUBORDINATE LIEN CIGARETTE TAX REVENUE BONDS

This Appendix is provided for informational purposes only. The Subordinate Lien Cigarette Tax Revenue Bonds do not represent annual Loan repayment obligations exceeding 20% of estimated Subordinate Lien Revenues in the first full year immediately following issuance of the Series 2005E Bonds, and the NMFA will not be obligated to provide continuing disclosure with respect to the Subordinate Lien Cigarette Tax Revenue Bonds unless and until the debt service on them for the then-current fiscal year meets the 20% test described under the caption "CONTINUING DISCLOSURE UNDERTAKING."

Authorization for the Subordinate Lien Cigarette Tax Revenue Bonds

The Subordinate Lien Cigarette Tax Revenue Bonds are being issued pursuant to a General Indenture of Trust (the "General Indenture"), dated as of April 1, 2004, as supplemented by a First Supplemental Indenture of Trust, dated as of April 1, 2004, by and between the NMFA and the Trustee, a Second Supplemental Indenture of Trust dated as of September 1, 2004, and a Third Supplemental Indenture of Trust dated as of June 1, 2005, all by and between the NMFA and Bank of Albuquerque, N.A., as trustee (collectively, the "Cigarette Tax Revenue Bonds Indenture"). The Subordinate Lien Cigarette Tax Revenue Bonds are authorized to be issued by Chapter 341, Laws of New Mexico 2003 and Chapter 319, Laws of New Mexico 2005 (collectively, the "Authorizing Act"). The Authorizing Act authorizes distribution by the State of amounts equal to (1) 14.52% of the net receipts of a cigarette excise tax (as more fully defined below under "Security for the Cigarette Tax Revenue Bonds – Revenues," the "Cigarette Tax") collected each month by the State to the NMFA, on behalf of 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 deposit in the credit enhancement account established in the NMFA by the Authorizing Act (the "Credit Enhancement Account"). The Authorizing Act further permits the NMFA to issue Cigarette Tax revenue bonds in an amount not to exceed $75,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital (the "UNM Hospital Project") and the Cancer Research and Treatment Center (the "UNM Cancer Research Center Project"), both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico (the "Health Sciences Center"). The UNM Hospital Project and the UNM Cancer Research Center Project are collectively referred to as the "UNM Health Sciences Center Project." The Authorizing Act directs the NMFA to pledge the 14.52% and 15.95% distributions for the payment of any Cigarette Tax revenue bonds. The Subordinate Lien Cigarette Tax Revenue Bonds are also being issued under the authority of the Act.

The NMFA has previously issued its Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project) Series 2004A and Series 2004B in the aggregate principal amount of $49,035,000 (the "Senior Lien Cigarette Tax Revenue Bonds" and, together with the Subordinate Lien Cigarette Tax Revenue Bonds, the "Cigarette Tax Revenue Bonds"). As long as the Senior Lien Cigarette Tax Revenue Bonds are outstanding, the NMFA is prohibited under the Cigarette Tax Revenue Bonds Indenture from issuing any obligations or securities, however denominated, payable with a parity lien on the Revenues except the following: (1) Bonds of any series up to $60,000,000 aggregate principal amount and (2) the obligation to any Security Instrument Issuer. The NMFA is also prohibited from issuing any obligations or securities payable with a superior lien to that of the Senior Lien Cigarette Tax Revenue Bonds on the Revenues described below under "Security for the Cigarette Tax Revenue Bonds – Revenues," but may issue obligations or securities with a subordinate lien on the Revenues.

Purpose of the Subordinate Lien Cigarette Tax Revenue Bonds

The Subordinate Lien Cigarette Tax Revenue Bonds are being issued for the benefit of the University of New Mexico (the "University"). The proceeds of the Subordinate Lien Cigarette Tax Revenue Bonds will be used to (1) pay a portion of the cost of the UNM Health Sciences Center Project, (2) current refund a portion of the NMFA's Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate) (CUSIP Number 64711MYX9) on or about September 1, 2005, and (3) pay certain costs of issuance of the Subordinate Lien Cigarette Tax Revenue Bonds.

Security for the Cigarette Tax Revenue Bonds

Revenues

The Subordinate Lien Cigarette Tax Revenue Bonds will be payable from and secured by an irrevocable pledge of and lien on the Revenues subordinate to the prior lien of the Senior Lien Cigarette Tax Revenue Bonds. Under the Indenture, the term "Revenues" is defined collectively as all cigarette tax revenues required to be distributed to the NMFA on behalf of and for the benefit of the Health Sciences Center pursuant to the provisions of the Authorizing Act, excluding any such revenues received prior to the issuance of the Senior Lien Cigarette Tax Revenue Bonds. Those revenues consist of 14.52% of the aggregate Cigarette Tax receipts collected each month by the State, net of penalties and interest, which percentage amount is to be distributed to the NMFA by the New Mexico Department of Taxation and Revenue (the "Department of Taxation and Revenue") pursuant to Section 7-1-6.11(E), New Mexico Statutes Annotated, plus all income and receipts derived from the investment thereof.

Each month, the NMFA is required to transfer all Revenues upon receipt to the Trustee to the credit of the Revenue Fund prior to being transferred to other funds created under the Cigarette Tax Revenue Bonds Indenture or to certain payees. From amounts on deposit in the UNM Health Sciences Center Project Revenue Fund, the Trustee is required to transfer first for deposit to the Bond Fund the amount necessary to pay 1/12 of the principal of and premium on and 1/6 of the interest on any Senior Lien Cigarette Tax Revenue Bonds that are not Variable Rate Bonds coming due in the next-ensuing 12 months, 1/12 of the principal of the Variable Rate Bonds coming due in the next-ensuing 12 months and all of the interest on any Variable Rate Bonds coming due in the next-ensuing month, and moneys representing principal and interest repayments under any Security Instrument Repayment Obligations promptly on each such payment date as the same become due and payable. Next, the Trustee is required to transfer amounts from the Revenue Fund to make certain deposits and payments, among them, a deposit to make up any deficiency in the Debt Service Reserve Fund for the Senior Lien Cigarette Tax Revenue Bonds. On or before the last business day of each month and from amounts remaining in the UNM Health Sciences Center Project Revenue Fund, the Trustee is required to transfer and deposit in the Bond Fund 1/12 of the principal next maturing and 1/6 of the interest next coming due on the Subordinate Lien Cigarette Tax Revenue Bonds. Next, the Trustee is required to transfer amounts from the Revenue Fund to make certain deposits and payments, among them, a transfer to reimburse any payments made from the Subordinate Lien PPRF Revenues in connection with a reserve or reserve surety for Bonds or subordinate lien Cigarette Tax Revenue Bonds and the payment of certain administrative expenses. Any remaining balance is then released to the Health Sciences Center.

Credit Enhancement Account

Additionally, under the Cigarette Tax Revenue Bonds Indenture the NMFA irrevocably pledges, as additional security for the payment of the principal, interest, premiums and expenses on the Senior Cigarette Tax Revenue Bonds and, on a basis subordinate to the lien of the Senior Lien Cigarette Tax Revenue Bonds, the Subordinate Lien Cigarette Tax Revenue Bonds, the amounts on deposit in the Credit Enhancement Account, representing 15.95% of the aggregate Cigarette Tax receipts collected each month by the State, net of penalties and interest, which percentage amount is to be distributed by the Department of Taxation and Revenue pursuant to the Authorizing Act to the NMFA for deposit in the Credit Enhancement Account. Amounts in the Credit Enhancement Account also may be pledged (but have not been as of the date of this Official Statement), on a subordinate basis only so long as the Senior Cigarette Tax Revenue Bonds or Subordinate Lien Cigarette Tax Revenue Bonds are outstanding, as additional security for bonds issued by the NMFA pursuant to the Authorizing Act for improvements to State Department of Health facilities.

Each month, the NMFA is required to determine the sufficiency of the Revenues for payment of principal, interest, premiums and expenses on the Senior Cigarette Tax Revenue Bonds and the Subordinate Lien Cigarette Tax Revenue Bonds. Any insufficient amount is to be paid promptly from the Credit Enhancement Account, in order of lien priority, and repaid in succeeding months from the respective Cigarette Tax proceeds not required for debt service or expenses on the Senior Cigarette Tax Revenue Bonds, the Subordinate Lien Cigarette Tax Revenue Bonds and any additional series of bonds. Money in the Credit Enhancement Account in excess of the monthly amount required for immediate payment or designation for payment of debt service and expenses on any such bonds is to be transferred monthly to the State's General Fund. The same deficiency payment mechanism is available for any bonds issued by the NMFA pursuant to the Authorizing Act for improvements to State Department of Health facilities.

Historic Collections of Net Cigarette Tax Receipts

Net Cigarette Tax receipts represent gross receipts, exclusive of penalties and interest, attributable to the Cigarette Tax. Net State Cigarette Tax receipts have increased from $1.624 million in 1955 to $19.490 million in 2003. The following table presents the collection history in the State for net Cigarette Tax revenues since 1988, as well as the amounts equal to 14.52% of such receipts (the amount of the University Distribution) and 15.95% of such receipts (the amount of the Credit Enhancement Distribution). Although such distributions of Cigarette Tax receipts did not commence until August 2003, the table below reflects the amount that would have been distributed had the distributions taken place in fiscal years 1994-95 through 2003-04.

History of Net Cigarette Tax Receipts

Fiscal Year (ended June 30)	Net State Cigarette Tax Receipts[(2)]	14.52% of Net State Cigarette Tax Receipts[(3)]	15.95% of Net State Cigarette Tax Receipts[(3)]
1995	$21,626,722	$3,140,200	$3,449,462
1996	22,860,465	3,319,340	3,646,244
1997	21,749,514	3,158,029	3,469,047
1998	21,550,902	3,129,191	3,437,369
1999	21,224,159	3,081,748	3,385,253
2000	20,513,108	2,978,503	3,271,841
2001	19,775,422	2,871,391	3,154,180
2002	19,223,585	2,791,265	3,066,162
2003	19,490,117	2,829,965	3,108,674
2004[(1)]	61,373,022	8,644,857	9,496,245

(1) The rate of the Cigarette Tax increased from $0.0075 to $0.0105 per cigarette sold effective July 1, 1993 (equal to an increase from $0.15 to $0.21 per pack) and from $0.0105 to $0.0455 per cigarette sold effective July 1, 2003 (equal to an increase from $0.21 to $0.91 per pack).
(2) Through fiscal year 2002-03, includes miscellaneous amounts paid as a result of out-of-State stamping privileges and consumption taxes.
(3) Although these columns show the amounts that equal 14.52% and 15.95%, respectively, of aggregate State receipts, distributions have been made to the NMFA only since August 2003. The amounts actually reflected on the NMFA books are receipts recorded by the date received by the NMFA rather than receipts recorded by the revenue accrual month as shown here.

Sources: New Mexico Taxation and Revenue Department; NMFA staff

Distribution of Net Cigarette Tax Receipts

As provided in the Authorizing Act (and codified at Section 7-1-6.11, New Mexico Statutes Annotated), net receipts of Cigarette Tax collections, excluding penalties and interest, are deposited by the New Mexico Taxation and Revenue Department in the Tax Administration Suspense Fund in the State Treasury and, as of the last day of each month, are distributed to a variety of funds and entities, as presented in the following table. After all monthly distributions have been made, the balance of the Cigarette Tax receipts are distributed to the State's General Fund. The following table presents the amounts that were distributed in the fiscal year ended June 30, 2005.

Distribution of Net Cigarette Tax Receipts[1]
Fiscal Year Ended June 30, 2005

Entity/Fund	% Distribution	Distribution
County and Municipality Recreation Fund	1.36%	$ 828,272
County and Municipal Cigarette Tax Fund	2.72	1,656,543
UNM Cancer Research & Treatment Center	1.36	828,270
NMFA (Operating Expenses)	2.04	1,242,405
NMFA (UNM Health Sciences Center)	14.52	8,843,002
NMFA (Dept. of Health facilities)	6.11	3,721,126
NMFA (Credit Enhancement Account)	15.95	9,713,904
State General Fund	55.94	34,072,597[2]
Aggregate Receipts Collected	100.00%	$60,902,220

(1) Unaudited.
(2) Includes miscellaneous amounts paid as a result of out-of-State stamping privileges and consumption taxes.

Source: New Mexico Taxation and Revenue Department

Distributions authorized for the University of New Mexico Hospital and the Cancer Research and Treatment Center at the UNM Health Sciences Center and to the Credit Enhancement Account were added by the Legislature during its 2003 Regular Session, at which time the Legislature also authorized the issuance of the $60,000,000 principal amount of Bonds to finance the UNM Health Sciences Center Project. Distributions authorized for the University of New Mexico Cancer Research and Treatment Center and the NMFA were added by the Legislature during its 1993 session, at which time the Legislature also authorized the issuance of $6,000,000 aggregate principal amount of bonds (the “1996 Bonds”) by the NMFA. The table below presents, monthly amounts of the 14.52% University Distribution since August 2003, the first month in which distributions were made to the University.

University Distribution by Month

Month	Fiscal Year 2003-04[1]	Fiscal Year 2004-05[2]
July[4]	—	$ 814,571
August[3][4]	$1,387,783	615,349
September	541,503	986,186
October	1,143,029	814,120
November	366,799	653,178
December	984,196	832,981
January	637,855	696,257
February	548,168	499,748
March	806,044	698,737
April	580,491	811,164
May	942,227	510,270
June	706,486	910,441
TOTAL	$8,644,578	$8,843,002

(1) Audited. Amounts are rounded to the nearest whole dollar. Totals may not add due to rounding.
(2) Unaudited. Amounts are rounded to the nearest whole dollar.
(3) Sales for August 2003 were affected in part by cigarette stamp inventory building in anticipation of the Cigarette Tax increase.
(4) Distributions have been made to the NMFA only since August 2003, the first month in which a University Distribution was made to the NMFA. The amounts actually reflected on the NMFA books are receipts recorded by the date received by the NMFA rather than receipts recorded by the revenue accrual month as shown here.

Source: New Mexico Taxation and Revenue Department

Funds and Accounts

The Subordinate Lien Cigarette Tax Revenue Bonds are also secured, on a basis subordinate to the Senior Lien Cigarette Tax Revenue Bonds, by the moneys and investments from time to time on deposit to the credit of the funds and accounts created under the Indenture for the purposes provided in the Subordinate Lien Cigarette Tax Revenue Bonds Indenture (other than moneys held to satisfy any obligations of the NMFA with respect to arbitrage rebate and moneys on deposit in the Construction Fund).

Special Limited Obligations

The Subordinate Lien Cigarette Tax Revenue Bonds, together with interest thereon, are not an indebtedness of the State, the University of New Mexico or the NMFA but are special limited obligations of the NMFA payable solely from and secured solely by the Revenues, certain funds and accounts created under the Indenture, and the Credit Enhancement Account. The NMFA has no taxing powers. 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, the University or any political subdivision of the State. The principal of and interest on the Subordinate Lien Cigarette Tax Revenue Bonds do not constitute or give rise to any personal liability on the part of the members, directors and officers of the NMFA. None of the land and facilities comprising the UNM Health Sciences Center Project or the Health Sciences Center will be pledged to secure payment of the Subordinate Lien Cigarette Tax Revenue Bonds.

Annual Debt Service Requirements and Coverage Ratios

The following tables prepared by Western Financial Group, LLC presents *pro forma* coverage of the Senior Lien Cigarette Tax Revenue Bonds, based on projections of the 14.52% University Distribution (which, together with investment income thereon, represents the Revenues and which, excluding such investment income, is referred to for the sole purpose of the table as the "Revenues"), projections of the 15.95% Credit Enhancement Distribution and on the actual or estimated annual debt service requirements, fees and expenses for the Senior Lien Cigarette Tax Revenue Bonds, and the Subordinate Lien Cigarette Tax Revenue Bonds. Western Financial Group, LLC's projections of *pro forma* Revenues and Credit Enhancement Distribution through the final maturity of the bonds are based on unaudited actual historical receipts for the fiscal year ended June 30, 2005, and assume a two-percent reduction in each succeeding fiscal year.

Under the Authorizing Act, the Credit Enhancement Account may also be pledged to the payment of the principal of, interest and premiums on, and expenses related to any bonds issued by the NMFA for improvements to State Department of Health facilities pursuant to the Authorizing Act. Under the Indenture, the NMFA is prohibited from issuing any such bonds payable with a parity lien on the amounts in the Credit Enhancement Account, except for Bonds issued under the Indenture. The NMFA may issue such bonds with a subordinate lien on amounts in the Credit Enhancement Account and in parity with the Subordinate Lien Cigarette Tax Revenue Bonds.

The projections contained in the following tables are based on a number of assumptions that may not be realized. There can be no assurance that the Revenues and the Credit Enhancement Distribution will not decrease more than the assumed two percent each fiscal year during the term of the Series 2005E Bonds. Neither the NMFA nor the Underwriters make any representation as to future levels of such Revenues or the Credit Enhancement Distribution and the resulting coverage ratios. See "FORWARD-LOOKING STATEMENTS."

Pro Forma **Coverage of the Senior Lien Cigarette Tax Revenue Bonds**

Fiscal Year Ending June 30	Total Available Revenues[1]	Debt Service Requirements & Fees[2]	Coverage by Revenues	Remaining Revenues After Debt Service & Fees	Credit Enhancement Distribution[1]	Coverage by Credit Enhancement Distribution	Coverage by All Sources
2006	8,666,142	6,237,679	1.39x	$2,428,463	$9,519,626	1.53x	2.92x
2007	8,492,819	5,984,404	1.42	2,508,415	9,329,233	1.56	2.98
2008	8,322,963	4,659,392	1.79	3,663,571	9,142,649	1.96	3.75
2009	8,156,503	4,493,159	1.82	3,663,345	8,959,796	1.99	3.81
2010	7,993,373	4,327,918	1.85	3,665,456	8,780,600	2.03	3.88
2011	7,833,506	4,170,857	1.88	3,662,649	8,604,988	2.06	3.94
2012	7,676,836	4,011,414	1.91	3,665,422	8,432,888	2.10	4.02
2013	7,523,299	3,793,296	1.98	3,730,004	8,264,230	2.18	4.16
2014	7,372,833	3,590,485	2.05	3,782,349	8,098,946	2.26	4.31
2015	7,225,376	3,435,961	2.10	3,789,415	7,936,967	2.31	4.41
2016	7,080,869	3,248,238	2.18	3,832,631	7,778,227	2.39	4.57
2017	6,939,252	3,045,854	2.28	3,893,398	7,622,663	2.50	4.78
2018	6,800,467	2,856,847	2.38	3,943,620	7,470,210	2.61	5.00
2019	6,664,457	2,165,990	3.08	4,498,468	7,320,805	3.38	6.46
2020	6,531,168	—	—	6,531,168	7,174,389	—	—
2021	6,400,545	—	—	6,400,545	7,030,902	—	—
2022	6,272,534	—	—	6,272,534	6,890,284	—	—
2023	6,147,083	—	—	6,147,083	6,752,478	—	—
2024	6,024,141	—	—	6,024,141	6,617,428	—	—
2025	5,903,659	—	—	5,903,659	6,485,080	—	—

(1) Projections are based on figures provided by the New Mexico Taxation and Revenue Department for actual stamp sales for the fiscal year ended June 30, 2005, and have been assumed, solely for purposes of this coverage table, to decrease in each succeeding fiscal year by 2%. For purposes of this table, the Revenues include only amounts from the University Distribution deposited in the Revenue Fund, and do not include investment earnings on those amounts.

(2) Represents scheduled debt service on the Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004A and the Cigarette Tax Variable Rate Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (the "Series 2004B Bonds"), after giving effect to the refunding of a portion of the Series 2004B Bonds, and certain fees and expenses. For the Cigarette Tax Variable Rate Revenue Bonds (UNM Health Sciences Center Project), Series 2004B, assumes an average interest rate of 3.50% *per annum*.

Source: Western Financial Group, LLC

Pro Forma Coverage of the Subordinate Lien Cigarette Tax Revenue Bonds

Fiscal Year Ending June 30	Total Available Revenues[1]	Debt Service Requirements[2]	Coverage by Revenues	Remaining Revenues After Debt Service[3]	Remaining Credit Enhancement Distribution[4]	Coverage by Credit Enhancement Distribution	Coverage by All Sources
2006	$2,428,463	—	—	$2,428,463	$9,519,626	—	—
2007	2,508,415	—	—	2,508,415	9,329,233	—	—
2008	3,663,571	$1,161,663	3.15x	2,501,909	9,142,649	7.87x	11.02x
2009	3,663,345	1,161,663	3.15	2,501,682	8,959,796	7.71	10.87
2010	3,665,456	1,161,663	3.16	2,503,793	8,780,600	7.56	10.71
2011	3,662,649	1,161,663	3.15	2,500,987	8,604,988	7.41	10.56
2012	3,665,422	1,161,663	3.16	2,503,760	8,432,888	7.26	10.41
2013	3,730,004	1,226,663	3.04	2,503,341	8,264,230	6.74	9.78
2014	3,782,349	1,279,063	2.96	2,503,286	8,098,946	6.33	9.29
2015	3,789,415	1,278,963	2.96	2,510,453	7,936,967	6.21	9.17
2016	3,832,631	1,628,650	2.35	2,203,981	7,778,227	4.78	7.13
2017	3,893,398	1,690,050	2.30	2,203,348	7,622,663	4.51	6.81
2018	3,943,620	1,742,650	2.26	2,200,970	7,470,210	4.29	6.55
2019	4,498,468	2,297,250	1.96	2,201,218	7,320,805	3.19	5.14
2020	6,527,168	4,326,500	1.51	2,200,668	7,174,389	1.66	3.17
2021	6,396,545	4,196,250	1.52	2,200,295	7,030,902	1.68	3.20
2022	6,268,534	4,064,250	1.54	2,204,284	6,890,284	1.70	3.24
2023	6,143,083	3,940,500	1.56	2,202,583	6,752,478	1.71	3.27
2024	6,020,141	3,819,500	1.58	2,200,641	6,617,428	1.73	3.31
2025	5,899,659	3,696,000	1.60	2,203,659	6,485,080	1.75	3.35

(1) Represents the Remaining Revenues After Debt Service & Fees in the table captioned "*Pro Forma* Coverage of the Senior Lien Cigarette Tax Revenue Bonds," reduced, in fiscal years ending June 30, 2020 through 2025 only, by an additional $4,000 annual trustee fee associated with the Subordinate Lien Cigarette Tax Revenue Bonds.

(2) Dollar amounts are rounded to the nearest whole dollar. Assumes payment of debt service for fiscal years 2006 and 2007 through the use of capitalized interest.

(3) Estimated appropriation to the Health Sciences Center.

(4) As shown, does not reflect any possible future reduction for payment of debt service on Senior Lien Cigarette Tax Revenue Bonds.

Source: Western Financial Group, LLC

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]

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 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E

We have acted as bond counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E in the aggregate principal amount of $23,630,000 (the "Series 2005E Bonds"). The Series 2005E Bonds are being issued for the purpose of providing funds (i) to finance and refinance improvements to the University of New Mexico Health Sciences Center through the purchase of the NMFA's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project) Series 2005 and (ii) to pay the costs of issuance of the Series 2005E 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 2005E Bonds are authorized to be issued under and secured by a Subordinated General Indenture of Trust and Pledge dated March 1, 2005 (the "General Indenture"), as amended and supplemented by a Second Supplemental Indenture of Trust dated as of July 1, 2005 (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 2005E 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 2005E 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 2005E 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 2005E 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 2005E Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2005E Bonds or any other offering material relating to the Series 2005E 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 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E

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 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E in the aggregate principal amount of $23,630,000 (the "Series 2005E Bonds"). The Series 2005E Bonds are being issued for the purpose of providing funds to (i) purchase securities issued by a governmental unit within the State of New Mexico to finance a public project, 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 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 2005E Bonds. The NMFA has 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 2005E Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005E Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2005E 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 2005E 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 2005E 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 2005E Bonds; and

(b) although we have rendered an opinion that interest on the Series 2005E 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 2005E 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 2005E 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 2005E Bonds. The Series 2005E 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 2005E Bond certificate will be issued for each maturity of the Series 2005E 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 2005E Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005E Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005E 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 2005E 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 2005E Bonds, except in the event that use of the book-entry system for the Series 2005E Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005E 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 2005E 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 2005E Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005E 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 2005E 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 2005E 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 2005E 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 2005E 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 depository with respect to the Series 2005E 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 2005E Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2005E 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 2005E Bonds.

APPENDIX G

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 issue its Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, to be purchased with the proceeds of the Series 2005E 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.

APPENDIX H

GOVERNMENTAL UNITS AND THEIR OUTSTANDING LOAN BALANCES

Revenues from the Loans secure all of the Bonds (including but not limited to the Series 2005E Bonds). The Governmental Units and the outstanding principal balances of their respective Loans are listed in the following table.

Governmental Unit	Outstanding Loan Principal Balance
NMFA	$50,395,000
NMFA	8,660,000
NMFA	23,630,000*

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* Represents the aggregate principal amount of the Subordinate Lien Cigarette Tax Revenue Bonds.

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APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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

____
President

SPECIMEN

Attest: ______________________________
Assistant Secretary

STD-R-7
01/05

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NEW ISSUE – BOOK-ENTRY ONLY **Ratings:** *Moody's: Aaa*
Fitch: AAA
(See "RATINGS")

DAC Bond®

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 2005F 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 2005F 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 2005F Bonds. See "TAX MATTERS."

$21,950,000
NEW MEXICO FINANCE AUTHORITY
Subordinate Lien Public Project Revolving Fund
Revenue Bonds
Series 2005F

Dated: Delivery Date **Due:** June 15, as shown on inside cover

The New Mexico Finance Authority Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F (the "Series 2005F 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 2005F 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 2005F Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2005F Bonds will be made in book-entry form only, and beneficial owners of the Series 2005F 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 2005F Bonds.

The Series 2005F Bonds will be issued under and secured by a Subordinated General Indenture of Trust and Pledge, dated as of March 1, 2005, as previously supplemented, and as supplemented by the Third Supplemental Indenture of Trust, dated as of October 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 Series 2005F Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2006. Principal of the Series 2005F Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedule on the inside front cover.

SEE MATURITY SCHEDULE
ON INSIDE FRONT COVER

The Series 2005F Bonds are subject to redemption prior to maturity.

Proceeds of the Series 2005F Bonds will be used by the NMFA to 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, to purchase a reserve instrument, and to pay the costs of issuance of the Series 2005F Bonds. The principal of and premium, if any, and interest on the Series 2005F Bonds and additional bonds issued or to be issued are payable solely from and secured solely by the Trust Estate. The NMFA has issued and may issue additional bonds and other obligations pursuant to the Indenture with a lien on the Trust Estate in parity with the lien of the Series 2005F Bonds. The NMFA has issued and expects to issue bonds with a lien on the NMFA Portion of the Governmental Gross Receipts Tax senior to the lien of the Series 2005F Bonds.

The Series 2005F Bonds are special limited obligations of the NMFA, payable, together with additional bonds issued or to be issued, solely from the Trust Estate. The Series 2005F 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. No provision of the Series 2005F 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 Series 2005F 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 the Series 2005F 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 Series 2005F Bonds. See "BOND INSURANCE."

MBIA

Certain legal matters concerning the legality of the Series 2005F 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 2005F 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, and by Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Disclosure Counsel to the NMFA. Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico, will serve as counsel to the Underwriters. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2005F Bonds. It is expected that a single certificate for each maturity of the Series 2005F Bonds will be delivered to DTC or its agent on or about December 7, 2005. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2005F Bonds.

George K. Baum & Company

RBC Dain Rauscher **Ramirez & Co., Inc.**

Dated: October 27, 2005

Maturity Schedule
$21,950,000
New Mexico Finance Authority
Subordinate Lien Public Project Revolving Fund Revenue Bonds
Series 2005F

Year (June 15)	Principal Amount	Interest Rate	Yield	CUSIP Number
2007	$ 735,000	4.00%	3.09%	64711MR90
2008	180,000	4.00	3.19	64711MS24
2009	940,000	3.75	3.31	64711MS32
2010	455,000	3.75	3.43	64711MS40
2011	445,000	4.00	3.65	64711MS57
2012	880,000	4.00	3.78	64711MS65
2013	850,000	4.25	3.91	64711MS73
2014	1,220,000	5.00	4.02	64711MS81
2015	1,035,000	5.00	4.10	64711MT98
2015	175,000	4.25	4.10	64711MS99
2016	1,285,000	4.00	4.19	64711MT23
2017	1,120,000	5.00	4.25*	64711MU21
2017	250,000	4.25	4.25	64711MT31
2018	1,440,000	5.00	4.30*	64711MT49
2019	1,400,000	4.25	4.34	64711MT56
2020	1,395,000	5.00	4.37*	64711MT64
2021	1,420,000	5.00	4.40*	64711MT72
2022	1,575,000	5.00	4.43*	64711MT80

$5,150,000 5.00% Term Bonds Due June 15, 2025 - Yield 4.55%*
CUSIP Number 64711MU39

* Yield to first optional redemption date.

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 2005F 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 2005F 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 2005F BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005F 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 2005F 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 2005F Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2005F 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 2005F 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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William F. Fulginiti, Vice Chairman
Joanna Prukop, Secretary
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Albuquerque and Santa Fe, New Mexico

Trustee, Registrar and Paying Agent
Bank of Albuquerque, N.A.
Albuquerque, New Mexico

TABLE OF CONTENTS

OFFICIAL STATEMENT

$21,950,000
NEW MEXICO FINANCE AUTHORITY
Subordinate Lien Public Project Revolving Fund
Revenue Bonds
Series 2005F

INTRODUCTION

This Official Statement, which includes the cover page and appendices, provides information in connection with the offer and sale of the Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F (the "Series 2005F Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2005F 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 Subordinated General Indenture of Trust and Pledge (the "General Indenture"), dated as of March 1, 2005, as previously supplemented and as supplemented by a Third Supplemental Indenture of Trust, dated as of October 1, 2005, between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as trustee (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 2005F 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 Series 2005F Bonds

Proceeds from the sale of the Series 2005F Bonds will be used by the NMFA to (1) directly fund, or to reimburse the Public Project Revolving Fund for, loans made by the NMFA to certain governmental entities (together with all other governmental entities receiving loans financed with Bonds, the "Governmental Units") for the purpose of financing public projects, (2) purchase a Reserve Instrument, and (3) pay the cost of issuance of the Series 2005F 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 and other obligations with a lien on the Trust Estate in parity with the lien of the Series 2005F Bonds have been issued and may be issued to provide loans to Governmental Units, to reimburse the Public Project Revolving Fund for loans made to Governmental Units, and to purchase securities from Governmental Units. For a description of the parity Bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds."

Authority for Issuance

The Series 2005F 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 2005F Bonds

Payments

The Series 2005F Bonds will be dated the Delivery Date. Interest on the Series 2005F Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2006. The Series 2005F 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 Series 2005F 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 purchasers of the Series 2005F 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 2005F 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 2005F Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the Series 2005F 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 2005F 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 2005F Bonds are subject to redemption prior to maturity. See "THE SERIES 2005F BONDS – Redemption."

Security and Sources of Payment for the Bonds

Special Limited Obligations

The Bonds, including the Series 2005F Bonds, are special limited obligations of the NMFA secured by and payable solely from the special revenues and funds of the NMFA pledged under the Indenture, including –

- moneys from the repayment by governmental borrowers of loans made or securities issued to finance a project under the Subordinated Indenture (“Agreements”);

- moneys from the repayment by governmental borrowers to the NMFA of loans made or securities purchased from moneys in the Public Project Revolving Fund and pledged as “Additional Pledged Loans” under the Indenture;

- certain Governmental Gross Receipts Tax revenues and moneys from the repayment to the NMFA of certain loans, to the extent available on June 1 of each year after all obligations of the NMFA under the Senior Indenture (as defined below under “Senior Bonds”) have been satisfied (together with the moneys described in the previous bullet point, the “Subordinate Lien PPRF Revenues”);

- any additional revenues received by the NMFA and designated as part of the special revenues and funds pledged under the Indenture pursuant to a Supplemental Indenture or Pledge Notification; and

- certain funds and accounts created and maintained pursuant to the Indenture.

The revenues and moneys described in the second and third bullet points above, after being applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Indenture, may be released to the NMFA on June 16 of each year to be used for any lawful purpose. However, only amounts not required to make payments of all debt service requirements on all Bonds and other parity obligations in the then current Bond Fund Year, after giving credit for amounts in the Debt Service Reserve Fund and the Agreement Reserve Fund established under the Indenture, may be released from the lien of the Indenture. Those moneys described in the third bullet point are paid to the Trustee immediately upon their release from the Senior Indenture on June 1 of each year and are available in the Revenue Fund for the purposes described above only until June 16 of each year. All amounts described in the second bullet point are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA (although they also may be released on June 16 of each year to the extent they are not required for debt service in the then current Bond Fund Year). For a more complete description of these deposits and transfers, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS –Flow of Funds” and see “Establishment and Use of Funds” in Appendix B – “EXTRACTS OF CERTAIN PROVISIONS OF 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.

Debt Service Reserve Account

Payment of the Series 2005F Bonds also will be secured by amounts on deposit in a separate account in the Debt Service Reserve Fund, which will be funded upon the issuance of the Series 2005F Bonds with a surety bond in the amount of the Debt Service Reserve Requirement, as described in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Service Reserve Fund.”

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 2005F 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 2005F Bonds. For a description of these requirements, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds." For a discussion of the parity Bonds currently outstanding, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Bonds." Except as provided in the Senior Indenture, the NMFA may not issue bonds or other indebtedness payable with a priority senior to the pledge of the Trust Estate for payment of the Subordinate Bonds without the prior written consent of 100% of the owners of the Outstanding Bonds and other obligations secured by the Indenture. The NMFA has issued, and expects to issue in the future, indebtedness having a lien on the NMFA Portion of the Governmental Gross Receipts Tax and moneys from the repayment to NMFA of the Additional Senior Pledged Loans deposited to the revenue fund created under the Senior Indenture ("PPRF Revenues"), prior to their release from the Senior Indenture, senior to the lien of the Bonds. For a description of currently outstanding bonds issued pursuant to the Senior Indenture, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds."

Senior Bonds

The lien of the Indenture on PPRF Revenues is junior and subordinate to the lien on those revenues of the NMFA's General Indenture of Trust and Pledge dated as of June 1, 1995, as amended and supplemented (the "Senior Indenture"), and pursuant to the Senior Indenture the NMFA has issued and may issue bonds ("Senior Bonds") or other obligations with a lien on those revenues senior to the lien of the Indenture. Those bonds are secured by and payable from the PPRF Revenues prior to their release from the Senior Indenture. While the timing, amount and other details of its next issue of Senior Bonds is not known at present, the NMFA maintains an ongoing program to provide loans and to purchase securities from Governmental Units and expects to finance some of those activities with the issuance of additional Senior Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds."

Bond Insurance

Payment of scheduled principal of and interest on the Series 2005F Bonds will be insured pursuant to a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued by MBIA Insurance Corporation (the "Bond Insurer") concurrently with the delivery of the Series 2005F Bonds. See "BOND INSURANCE."

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2005F Bond Owners that, so long as the Series 2005F 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 Subordinate Lien 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 2005F 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 2005F 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 2005F 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 2005F Bonds, see "TAX MATTERS."

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2005F 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. 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. Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico, will serve as counsel for the Underwriters. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2005F 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 Series 2005F Bonds

The Series 2005F 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 2005F Bonds will be delivered to DTC or its agent on or about December 7, 2005. The Series 2005F Bonds will be distributed in the initial offering by George K. Baum and Company, RBC Dain Rauscher, Inc. and Ramirez & Co., Inc. (the "Underwriters"), for which George K. Baum and Company is acting as managing underwriter and representative (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 Series 2005F Bonds.

THE SERIES 2005F BONDS

Generally

The Series 2005F Bonds are being issued pursuant to the Act, the Indenture, and a resolution adopted by the NMFA. The Series 2005F Bonds are being issued to reimburse the Public Project Revolving Fund for loans made by the NMFA to Governmental Units for the purpose of financing public projects, purchase a Reserve Instrument, and to pay costs of issuing the Series 2005F Bonds. For a description of the 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 approved forms of the General Indenture and the Third Supplemental Indenture are available as described under "ADDITIONAL INFORMATION."

Description of the Series 2005F Bonds

The Series 2005F Bonds will be dated as of the Delivery Date. Interest will accrue on the Series 2005F 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 15 and December 15 of each year, commencing June 15, 2006. The Series 2005F 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 2005F 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 2005F 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 2005F Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2005F Bonds will be made in book-entry form only, and beneficial owners of the Series 2005F 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 2005F Bonds. For a more complete description of the book-entry only system, see Appendix E – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Generally

The Series 2005F Bonds are subject to optional redemption and mandatory sinking fund redemption as described below.

Optional Redemption by the NMFA

The Series 2005F Bonds maturing on or after June 15, 2016 are subject to optional redemption at any time on and after June 15, 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 Series 2005F Bonds to be redeemed, plus accrued interest to the redemption date, but without premium.

Mandatory Sinking Fund Redemption

The Series 2005F Bonds maturing June 15, 2025 are subject to mandatory sinking fund redemption, at a price of 100% of the principal amount of such Series 2005F Bonds plus accrued interest to the redemption date, on the dates and in the principal amounts, as follows:

Redemption Dates (June 15)	Principal to be Redeemed
2023	$1,650,000
2024	1,740,000
2025+	1,760,000

+Final Maturity

If any of the Series 2005F Bonds maturing on June 15, 2025 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 2005F Bonds maturing on June 15, 2025, 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 2005F Bonds, are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2005F 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 2005F 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 PPRF Secured Obligations (as to amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments, and, second, for the equal and ratable payment of the Reserve Instrument Repayment Obligations. The Trust Estate includes –

- Agreement Revenues,
- Additional Pledged Revenues,
- Subordinate Lien PPRF Revenues, and
- other amounts in certain funds and accounts created and maintained pursuant to the Indenture,

all as more fully described below. The Agreement Revenues, Additional Pledged Revenues and Subordinate Lien PPRF Revenues are collectively referred to as the "Subordinate Lien Revenues."

As discussed under "Flow of Funds" below, revenues received from a Governmental Unit by the NMFA pursuant to a Loan Agreement are transferred to the Trustee for deposit 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 Subordinate Lien PPRF Revenues are transferred to the Trustee for deposit 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 for that purpose. On June 16 of each year, moneys in the Revenue Fund in excess of the requirements for such moneys under the Indenture are transferred to the NMFA for use as described in the Indenture. These moneys are no longer part of the Trust Estate. For a more complete description of the funds and accounts into which Subordinate Lien PPRF Revenues and Additional Pledged Revenues are deposited, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE." For a more complete description of the Revenue Fund, see "Flow of Funds - Revenue Fund" under this caption.

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 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 Revenues are not among the amounts released from the Revenue Fund on June 16 of each year, as described below under "Subordinate Lien PPRF Revenues."

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 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.

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. The only Agreements with repayment obligations currently securing the Bonds are the NMFA's $50,395,000 Court Facilities Fee Refunding Revenue Bonds, Series 2005-1 (the "Series 2005-1 Metro Court Bonds"), $8,660,000 Court Facilities Fee Refunding Revenue Bonds, Series 2005-2 (the "Series 2005-2 Metro Court Bonds" and, together with the Series 2005-1 Metro Court Bonds, the "Metro Court Bonds"), and $23,630,000 Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005 (the "2005 Subordinate Lien Cigarette Tax Bonds"). The official statement for the NMFA's Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D, which includes information concerning the Metro Court Bonds, and the official statement for the NMFA's Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E, which includes information concerning the 2005 Subordinate Lien Cigarette Tax Bonds, are available at the Internet site http://www.munios.com. Following the issuance of the Series 2005F Bonds, the Bonds will also be secured by several additional Agreements representing those Loans to be directly funded or reimbursed with proceeds from the sale of the Series 2005F Bonds. See Appendix G for a list of the Governmental Units and their outstanding or expected Loan balances. Subordinate Lien Revenues are not pledged to the payment of any of the Agreements.

The following table lists those Agreements that, based on scheduled payments in fiscal year 2005-06 and assuming no prepayment or redemption under the Agreements, are expected to generate Agreement Revenues in fiscal year 2005-06.

Agreements Expected to Generate Agreement Revenues[1]

Obligor/Issuer	FY 2005-06 Debt Service[2]	% of Projected FY 2005-06 Agreement Revenues	Final Maturity
NMFA (Metro Court Bonds)	$4,475,737	75.30%	6/15/2025
NMFA (2005 Subordinate Lien Cigarette Tax Bonds)	919,649[3]	15.47	6/15/2025
Albuquerque Bernalillo County Water Utility Authority	377,904	6.36	5/1/2025
Dexter Consolidated Schools	6,493	0.11	8/1/2018
Truth or Consequences Municipal Schools	15,220	0.26	8/1/2017
Torrance County Dist. 5 Fire Department	36,912	0.62	5/1/2020
San Miguel County	111,974	1.88	5/1/2015
Hatch Valley	0	0.00	8/1/2013
Hagerman Municipal School District	0	0.00	8/1/2015

(1) Based on scheduled fiscal year 2005-06 debt service and assumes no prepayment or redemption.
(2) Constitutes Agreement Revenues.
(3) Represents capitalized interest.

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 Subordinate Lien PPRF Revenues.

Additional Pledged Revenues

Additional Pledged Revenues consist of any additional revenues received by the NMFA and designated as part of the Trust Estate pursuant to the Indenture or a Pledge Notification. Additional Pledged Revenues are not revenues attributable to Additional Pledged Loans. There will be no Additional Pledged Revenues on the date of delivery of the Series 2005F Bonds.

Additional Pledged Revenues may be among the amounts released from the Revenue Fund on June 16 of each year to the extent they will not be required for debt service in the then current Bond Fund Year, as described below under "Subordinate Lien PPRF Revenues." Additional Pledged Revenues are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA. For a more complete description of these deposits and transfers, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

Subordinate Lien PPRF Revenues

Subordinate Lien PPRF Revenues consist in part of the NMFA Portion of the Governmental Gross Receipts Tax and moneys from the repayment to NMFA of the Additional Senior Pledged Loans deposited to the revenue fund created under the Senior Indenture ("PPRF Revenues"), to the extent such amounts are available on June 1 of each Bond Fund Year after all obligations of the NMFA under the Senior Indenture have been satisfied and the Trustee has retained any amounts required to be retained pursuant to the Senior Indenture. "Additional Senior Pledged Loans" are additional loans made or securities purchased by the NMFA from amounts on deposit in the Public Project Revolving Fund, the payments of principal of and interest on which have been specifically pledged by the NMFA to the payment of the Senior Bonds and other amounts due under the Senior Indenture. Pursuant to the Indenture, all such released moneys are to be deposited into the Revenue Fund created by the Indenture.

Subordinate Lien PPRF Revenues also consist in part of revenues from 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," and upon such designation, the principal and interest payments on such loans or securities become pledged by the NMFA to the payment of Bonds and PPRF Secured Obligations and other amounts secured by the Indenture. See "Flow of Funds" below under this caption.

Additional Pledged Loans (repayments of which are pledged to the payment of the Bonds) are not Additional Senior Pledged Loans (repayments of which are pledged only to the extent available for transfer under the Senior Indenture on June 1 of each Bond Fund Year).

Moneys in the Revenue Fund are available to pay on a parity basis debt service on Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments. Moneys in the Revenue Fund, after being applied to the payment of current obligations and the restoration of deficiencies in funds and accounts held under the Indenture, may be released to the NMFA on June 16 of each year to be used for any lawful purpose. However, only amounts not required to make payments of all Debt Service requirements on all Bonds and other parity obligations in the then current Bond Fund Year, after giving credit for amounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, may be released from the lien of the Indenture. Those moneys consisting of PPRF Revenues released from the lien of the Senior Indenture are paid to the Trustee immediately upon their release from the Senior Indenture on June 1 of each year and are available in the Revenue Fund for the purposes described above only until June 16 of each year. All payments representing principal and interest from Additional Pledged Loans (which, together with the PPRF Revenues released from the lien of the Senior Indenture, comprise Subordinate Lien PPRF Revenues) and all amounts received as Additional Pledged Revenues (which do not) are deposited in the Revenue Fund immediately upon their receipt throughout the year by the NMFA (although they also may be released on June 16 of each year to the extent they will not be required for debt service in the then current Bond Fund Year). For a more complete description of these deposits and transfers, see "Flow of Funds" below under this caption, and "Establishment and Use of Funds" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

The following table shows, for fiscal years 2000-01 through 2004-05, the amounts released to the NMFA from the Senior Indenture, which represents the amount that would be included as Subordinate Lien PPRF Revenues under the Indenture.

Historic Subordinate Lien PPRF Revenues
Fiscal Years 2000-01 Through 2004-05
(Released to NMFA on June 1)

Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05
$16,565,126	$21,694,363	$18,138,693	$18,185,919	$37,894,840*

* Includes the repayment during fiscal year 2004-05 of several direct short-term loans made to borrowers from the Public Project Revolving Fund.

Source: NMFA

The amount of Subordinate Lien PPRF Revenues actually received by the NMFA on any June 1 may be affected by several factors. Those factors include:

- The amount of Governmental Gross Receipts Taxes that will be collected and distributed to the NMFA and ultimately released from the Senior Indenture to become Subordinate Lien PPRF Revenues is subject to fluctuation based on the activities that generate those taxes. There can be no guarantee that the NMFA's Portion of the Governmental Gross Receipts Taxes collected in the future will be consistent with historical collection trends. See "Outstanding Senior Bonds – The Governmental Gross Receipts Tax – Collection and Distribution Information" under this caption.

- The amount of money to be released from the Senior Indenture to become Subordinate Lien PPRF Revenues may be reduced if the other revenues expected to pay debt service on the Senior Bonds in a given year are not available. The availability of those revenues is dependent upon many factors not within the NMFA's control, including the ability of entities to which the NMFA has loaned the proceeds of the Senior Bonds to repay those loans.

Subject to the provisions of the Senior Indenture, the NMFA may issue additional Senior Bonds without the consent of the holders of the Bonds. For a description of the conditions that must be met to issue additional Senior Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds."

Debt Service Reserve Fund

The Indenture permits the establishment of a separate Account in the Debt Service Reserve Fund solely for the benefit of the holders of a Series of Bonds, and establishes a separate Account for the Series 2005F Bonds in an amount equal to the least of (1) 10% of the proceeds of such Series of Bonds determined on the basis of original principal amount (unless original issue premium or original issue discount exceeds two percent of original principal, then determined on the basis of initial purchase price to the public), (2) the maximum annual Debt Service during any Bond Fund Year for such Series of Bonds, and (3) 125% of the average annual Debt Service for such Series of Bonds (the "Debt Service Reserve Requirement"). If at any time the amount on deposit in any Account of the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement for that Account, the NMFA is required to make payments totaling the amount of any such deficiency directly to the Trustee for deposit into the Debt Service Reserve Fund.

The Debt Service Reserve Requirement may be funded entirely or in part with one or more letters of credit, bond insurance policies, surety bonds, standby bond purchase agreement, lines of credit or other devices (each, a "Reserve Instrument"). No Reserve Instrument may be allowed to expire or terminate while the related Series of Bonds are Outstanding unless and until cash has been deposited into the related account of the Debt Service Reserve Fund, or a new Reserve Instrument has been issued in place of the expiring or terminating Reserve Instrument, or any combination thereof in an amount or to provide coverage, as the case may be, at least equal to the amount required to be maintained in the related account of the Debt Service Reserve Fund.

Flow of Funds

The Indenture creates a Revenue Fund, a Program Fund (with separate accounts for each Agreement or Project), a Bond Fund, a Debt Service Fund (with separate accounts for each Agreement), a Debt Service Reserve Fund (with a separate account for each series of Bonds with a Debt Service Reserve Requirement), an Agreement Reserve Fund (with a separate account for each Agreement that has a reserve requirement), an Expense Fund and a Reserve Instrument Fund.

Flow of Funds Under General Indenture

All Loan Payments payable under the Loan Agreements and Securities (except as otherwise provided in a Supplemental Indenture) are required to be paid directly to the NMFA for remittance to the Trustee for deposit immediately upon their receipt, as follows:

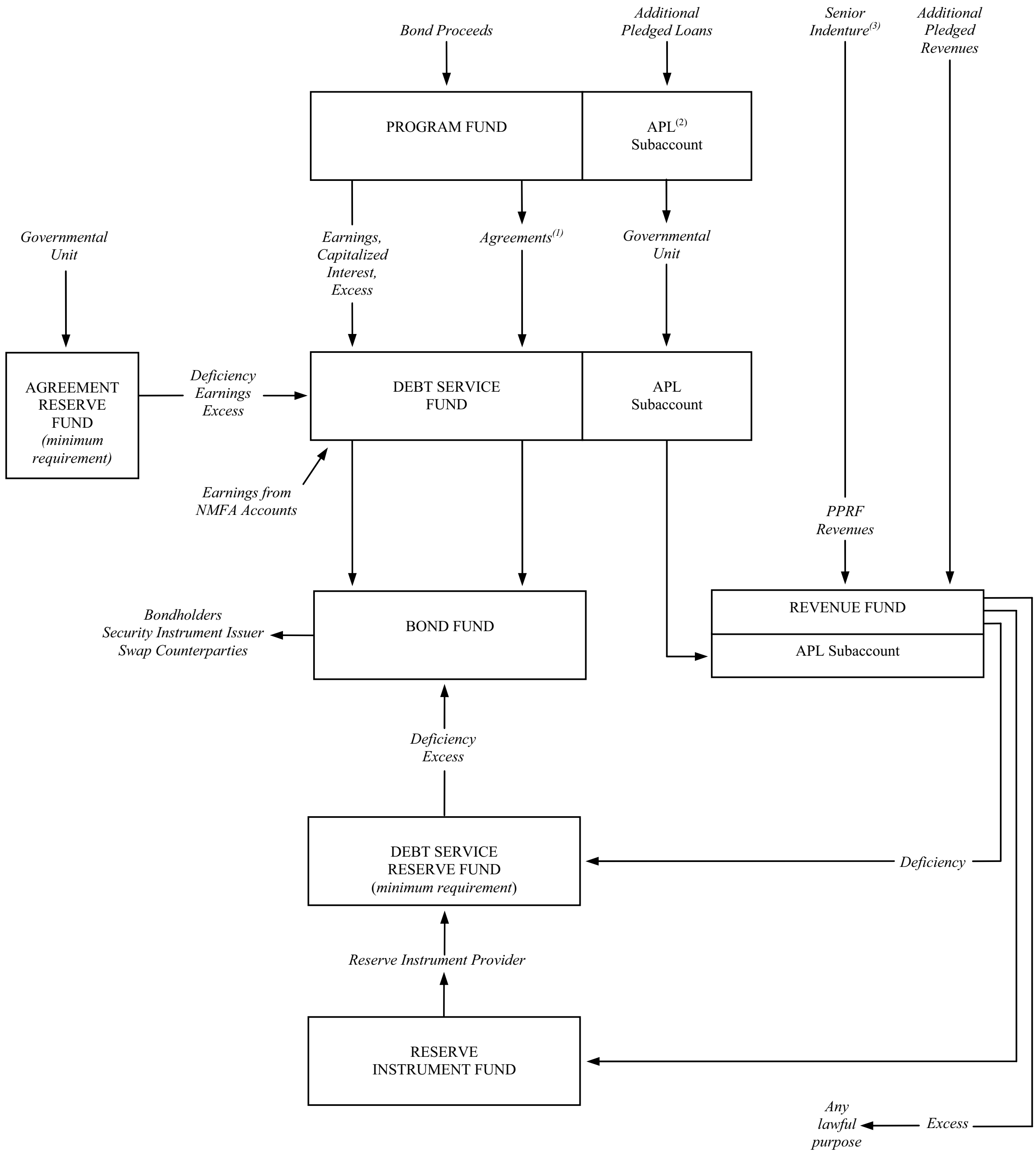
First: to the related Account in the Debt Service Fund in an amount required to cause the aggregate amount on deposit in that Account to equal the amount then required to make the principal and interest payments due or to next become due with respect to the Loan (it being anticipated that each Governmental Unit will deposit an amount at least equal to the Loan Payments coming due under the related Loan Agreement or Securities with the NMFA, which will remit that amount to the Trustee for allocation to the related Account in the Debt Service Fund);

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; and

Third: to the payment of Program Costs (to the extent allocable to such Agreement).

Presented on the following page is a diagram of the funds and the flow of revenues under the Indenture.

Indenture Flow of Funds



(1) Consist of Loans and Securities.
(2) "APL" refers to Additional Pledged Loans.
(3) PPRF Revenues released each June 1.

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. Two Business Days prior to an Interest Payment Date, available moneys in the Revenue Fund will be transferred to the Paying Agent for the Bonds to the extent the amounts in the Bond Fund and the Debt Service Fund are insufficient to pay Debt Service on the Bonds on such Interest 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 from payments relating to a Governmental Unit's Agreement, (2) to replenish the Governmental Unit's Account in the Agreement Reserve Fund, and (3) to pay the Governmental Unit's share of Program Costs for the year. The Trustee is directed to return any excess 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. Any excess attributable to earnings on funds, and accounts for the Governmental Unit will be returned to the Governmental Unit or will be credited to the Loan Payments next coming due and any other excess will be deposited into the Revenue Fund.

Revenue Fund

During each Bond Fund Year, (1) all PPRF Revenues released from the lien of the Senior Indenture will be paid by the NMFA to the Trustee immediately upon their release on June 1 of each year, (2) all Additional Pledged Revenues will be immediately deposited with the Trustee and (3) all payments representing principal and interest from Additional Pledged Loans will be paid immediately upon their receipt by the NMFA to the Trustee. All of those amounts will be accounted for and maintained by the Trustee in the Revenue Fund. The Revenue Fund will be kept separate and apart from all other accounts of the Trustee and prior to transfers of any excess from the Revenue Fund on June 16 of each year (as described below), all amounts in it will be transferred by the Trustee in the order of priority specified below:

- To the Bond Fund, an amount needed, when added to amounts on deposit in the Bond Fund and transferred from the Debt Service Fund, to pay the principal of and interest on the Bonds due on June 15 and to rectify any deficiency in the Bond Fund that has not otherwise been rectified.

- To the paying agent for any PPRF Secured Obligation that notifies the Trustee, an amount needed, when added to amounts otherwise available for such purpose, to pay the principal and interest then due with respect to the PPRF Secured Obligations on June 15 and to rectify any such deficiency in the payment of any PPRF Secured Obligation has occurred that has not otherwise been rectified.

- To the Bond Fund, an amount needed, when added to amounts transferred from the Debt Service Fund, to pay the amounts due on the Security Instrument Repayment Obligations and the SWAP Payments (net of SWAP Receipts) then due pursuant to any Security Instrument Agreements or Interest Rate Swaps, and the amount needed to rectify any deficiency in the payment of any Security Instrument Repayment Obligations or SWAP Payments that has not been rectified.

The transfers required by the preceding paragraph are to be made on a parity basis. If the amount available for transfer is insufficient, the Trustee must make those transfers ratably according to the amounts due.

After making the transfers described above, the NMFA must make the following transfers to the Trustee:

- To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (1) to the Accounts in the Debt Service Reserve Fund, any amounts required by the General Indenture and by any Supplemental Indenture to accumulate therein the applicable Debt Service Reserve Requirement with respect to each Series of Bonds at the times and in the amounts provided in the General Indenture and in any Supplemental Indenture and (2) if funds shall have been withdrawn from an Account in the Debt Service Reserve Fund or any Account in the Debt Service Reserve Fund is at any time funded in an amount less than the applicable Debt Service Reserve Requirement, the NMFA shall transfer from the Revenue Fund to such Account or Accounts in the Debt Service Reserve Fund an amount sufficient to restore such Account or Accounts within one year with 12 substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Debt Service Reserve Requirement); or a ratable portion (based on the amount to be transferred pursuant to the following bulleted clause) of remaining amounts if less than the amount necessary; and

- Equally and ratably to the Accounts of the Reserve Instrument Fund, with respect to all Reserve Instruments in effect and expected to continue in effect after the end of such month, such amount from the Revenue Fund, or a ratable portion (based on the amount to be transferred pursuant to the previous bulleted clause) of the amount so remaining if less than the amount necessary, that is required to be paid, on or before the next such transfer or deposit from the Revenue Fund into the Reserve Instrument Fund, to the Reserve Instrument Provider pursuant to any Reserve Instrument Agreement, other than Reserve Instrument Costs, in order to cause the Reserve Instrument Coverage to equal the Reserve Instrument Limit within one year from any draw date under the Reserve Instrument.

In the event that funds have been withdrawn from an Account in the Agreement Reserve Fund, or any Account in the Agreement Reserve Fund is at any time funded in an amount less than its Agreement Reserve Requirement after making the transfers described above, the NMFA will transfer for deposit in such Account sufficient Subordinate Lien PPRF Revenues, Agreement Revenues with respect to the related Agreement, Additional Pledged Revenues and revenues from Additional Pledged Loans to restore such Account within one year with 12 substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Agreement Reserve Requirement); or a ratable portion of remaining Subordinate Lien PPRF Revenues, Agreement Revenues with respect to the related Agreement, Additional Pledged Revenues and revenues from Additional Pledged Loans if less than the amount necessary.

After making the foregoing transfers to the Bond Fund and to the Paying Agent for the PPRF Secured Obligations and to the Security Instrument Issuers and to the SWAP Providers and to the Reserve Instrument Providers, on June 16 of each year, the NMFA will be entitled to direct the Trustee in writing to release to the NMFA the balance on deposit in the Revenue Fund and the Trustee must then transfer the balance to the NMFA. However, prior to any such release being made, there must be retained in the Revenue Fund an amount, after giving credit for available amounts in all accounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, sufficient to make payments of all Bond Debt Service requirements (calculated as provided in clauses (i), (ii) and (iii) of the definition of Debt Service presented under the caption "Definitions" in Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE"), Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations coming due in the then current Bond Fund Year; provided further, that once additional moneys are deposited into the Bond Fund to make all of the foregoing payments, the amounts retained in the Revenue Fund may be released from the lien of the Indenture but only to the extent of additional moneys deposited into the Bond Fund. The NMFA may use the balance for:

- deposit to the Public Project Revolving Fund as required by the Act;

- redemption of Bonds prior to maturity by depositing the same into the Bond Fund;

- refinancing, refunding, repurchase or advance refunding of any Bonds; or

- for any other lawful purpose, including payment of Program Costs for Bonds and similar costs for PPRF Secured Obligations, replacement of reserves for Bonds or PPRF Secured Obligations and payment of Termination Payments.

The NMFA may, but is not obligated to, use any legally available PPRF Revenues of the NMFA to satisfy its obligations under the Indenture.

Debt Service Reserve Fund

In the event of a deficiency in the Bond Fund for a Series of Bonds, the Trustee will transfer moneys on deposit in the related Account of the Debt Service Reserve Fund to the Bond Fund to make up such deficiency. Moneys on deposit in any Account of the Debt Service Reserve Fund will be used to make up any deficiencies in the Bond Fund only for the Series of Bonds secured by that Account and any Reserve Instrument may only be drawn upon with respect to the Series of Bonds for which such Reserve Instrument was obtained.

If funds on deposit in an Account of the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund, and there is insufficient cash available in such Account of the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such Series are in effect, the Trustee will immediately make a demand for payment on such Reserve Instruments, to the maximum extent authorized by such Reserve Instruments, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund.

Moneys at any time on deposit in the account of the Debt Service Reserve Fund in excess of the amount required to be maintained therein (taking into account the amount of related Reserve Instrument Coverage) will be transferred by the Trustee to the Bond Fund at least once each year.

Investment Earnings

All income earned from the investment of moneys in the respective Accounts held by the NMFA and the respective Accounts of the Debt Service Fund and the Agreement Reserve Fund (but only to the extent that the amount on deposit exceeds the related Agreement Reserve Requirement), shall 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, with all earnings received on the Governmental Unit's Accounts being allocated solely to the benefit of such Governmental Unit.

Application of Loan Prepayments

Most Governmental Units have the option, beginning one year after origination, to make full or partial Prepayments of their Loans. The outstanding Bonds are not and the Series 2005F Bonds will not be subject to mandatory redemption under such circumstances. With respect to the Series 2005F Bonds, the Indenture instead provides that, for the purpose of matching, to the extent practicable, both (1) Loan Payments with debt service requirements for the Series 2005F Bonds for loans financed with Series 2005F Bonds, and (2) overall debt service requirements for all Outstanding Bonds with the Loan Payments on all outstanding Loans, the NMFA must, within 365 days following the receipt of a Prepayment of a Loan financed with Bonds, take any one or more of the actions described in the following two paragraphs separately or in combination.

The NMFA may 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 the final maturity date and debt service requirements for the portion of the Loan on which the Prepayment was made, or (2) call for optional redemption Series 2005F Bonds that are subject to redemption in an aggregate principal amount, and with debt service requirements approximating the debt service requirements of the Loan for which the portion of the Prepayment to be applied was made. See "THE SERIES 2005F BONDS – Redemption – Optional Redemption by the NMFA."

If the NMFA does not elect either of the options described in the previous paragraph, it must defease Series 2005F Bonds, in Authorized Denominations, to their first optional redemption date as described under the caption "THE SERIES 2005F BONDS – Redemption – Optional Redemption by the NMFA," in an amount approximating the Prepayment received (or a pro rata portion thereof if only a portion of the Prepayment is to be applied). The principal amount and maturity date of the Series 2005F 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 Loan Payments due under any Loan Agreement in the case of a partial Prepayment of Loan Payments in a manner consistent with the actions taken.

To date, the NMFA has not received any Prepayments.

Additional Bonds

Generally

Additional Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds out of the Trust Estate may be issued, created or incurred, only if certain requirements have been met, including the following:

- NMFA must deliver to the Trustee a Cash Flow Statement, taking into account the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes. The requirements of the Cash Flow Statement are presented below under the caption "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, PPRF Secured Obligations 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), (2) to make additional Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance) or (3) to finance other projects approved by the NMFA.

- No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes if (1) the issuance of such Additional Bonds, PPRF Secured Obligations 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, PPRF Secured Obligations or other indebtedness, bonds or notes and the application of the proceeds thereof.

All payments required to be made into the Bond Fund must have been made in full, and there must be on deposit in each account of the Debt Service Reserve Fund (taking into account any Reserve Instrument Coverage) the full amount required to be accumulated therein at the time of issuance of the Additional Bonds.

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" means 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 or PPRF Secured Obligations expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year or Interest Rate Swaps to be executed, 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 or Additional Pledged Revenues released from the 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 Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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 (as defined below) to be received in each such Bond Fund Year and to be available to make debt service payments on the Bonds;

   - the earnings on the Bond Fund for each such Bond Fund Year; and

   - the Aggregate Annual Debt Service (as defined below) for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Instrument Repayment Obligations reasonably expected to be Outstanding; and

- showing that in each such Bond Fund Year the aggregate of the amounts set forth in the first three bulleted clauses above exceeds 100% of the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Obligations reasonably expected to be Outstanding. For purposes of the foregoing, the following assumptions apply:

   - the Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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;

   - for any Bonds issued in a 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

   - earnings on the Bond Fund will be assumed to equal the greatest amounts from any consecutive 12 months of the immediately preceding 24 months.

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 PPRF Secured Obligations, Nonperforming Loans and Additional Pledged Loans (as defined below), 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" 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.

For most purposes of the Indenture, "Rating Agencies" means Moody's Investors Service, Inc., Standard and Poor's 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. For purposes of the Cash Flow Statement, however, "Rating Agencies" means Moody's Investors Service, Inc. and Fitch Ratings or their successors and assigns; provided that, if more than one such Rating Agency will be categorizing Loans and Additional Pledged Loans, for purposes of assigning a category, "Rating Agencies" will refer to the Rating Agency assigning the lower of the categorizations.

Pursuant to the Indenture, at the time of issuance of each series of Bonds or PPRF Secured Obligation, 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, a PPRF Secured Obligation or an Additional Pledged Loan may be revised by the Rating Agencies except (1) in the case of Category IV Loans, PPRF Secured Obligations or Additional Pledged Loans, which may be designated by the NMFA or the Rating Agencies, or (2) in the case of Nonperforming Loans and Additional Pledged Loans, recategorization shall occur automatically.

Of the Agreements submitted to the Rating Agency to date, \$103.2 million (95.5%) have been assigned to Category I, \$4.5 million (4.1%) have been assigned to Category II and \$0.4 million (0.4%) have been assigned to Category III.

The formula described in detail above can be expressed as follows: If A = Subordinate Lien PPRF Revenues and Additional Pledged Revenues, B = Assumed Repayments of Loans and Additional Pledged Loans, C = Bond Fund earnings and D = Aggregate Annual Debt Service on all Bonds Outstanding), then Additional Bonds may be issued under the Indenture if:

$$A + B + C > D$$

PPRF Secured Obligations

The NMFA may identify any bond, note or other obligation identified in a Supplemental Indenture or Pledge Notification as a PPRF Secured Obligation. PPRF Secured Obligations are secured solely with amounts deposited to the Revenue Fund, including the Subordinate Lien PPRF Revenues, and are not Bonds.

No Senior Lien Obligations Other Than Senior Bonds

Other than the Senior Bonds, no additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Trust Estate for payment of the Bonds, PPRF Secured Obligations, the Security

Instrument Repayment Obligations and the SWAP Payments will be created or incurred without the prior written consent of 100% of the Owners of Outstanding Bonds, Owners of PPRF Secured Obligations, Security Instrument Issuers and SWAP Counterparties.

Outstanding Parity Bonds

The NMFA issued its Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C, Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D and Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E (the "2005 Subordinate Bonds"), pursuant to the Indenture. Those Bonds financed the purchase of the Metro Court Bonds and 2005 Subordinate Lien Cigarette Tax Bonds described above under the subcaption "The Agreements and the Agreement Revenues – Agreements with Governmental Units" and are currently outstanding in the following amounts:

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of Nov. 15, 2005*
2005C	$50,395,000	$50,395,000
Taxable 2005D	8,660,000	6,115,000
2005E	23,630,000	23,630,000
TOTAL	$82,685,000	$80,140,000

* Bonds mature on June 15.

Source: Western Financial Group, LLC

See "ANNUAL DEBT SERVICE REQUIREMENTS" for Debt Service Requirements on the Outstanding Bonds and aggregate payments under Agreements.

Outstanding Senior Bonds

General

The NMFA is authorized to issue bonds pursuant to the Senior 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 "Senior PPRF Agreements"). The Senior Bonds are secured by:

- all revenues received by the NMFA from the allocation of the NMFA Portion of the Governmental Gross Receipts Tax, as more fully described below under "The Governmental Gross Receipts Tax";

- all revenues received or earned by the NMFA from or attributable to the Senior PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program);

- all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Senior Indenture; and

- all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Senior Indenture.

The NMFA has issued, and expects to issue, additional Senior Bonds under the Senior Indenture. The timing, amount and other details of any additional Senior Bonds have not been determined. The following table presents the series of Senior Bonds that are currently outstanding under the Senior Indenture.

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of November 1, 2005*
1996 A & 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
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	1,345,000
2000C	28,850,000	3,160,000
2002A	55,610,000	32,640,000
2003A	39,945,000	34,590,000
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	$509,515,000	$400,005,000

* Senior Bonds mature on June 1.

Source: Western Financial Group, LLC

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 allocated to the Public Project Revolving Fund is referred to as the "NMFA Portion of the Governmental Gross Receipts Tax." Under the Senior 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 Senior Indenture within the Public Project Revolving Fund and is available (1) to pay debt service on the Senior Bonds to the extent Loan Payments paid by Governmental Units pursuant to loan agreements or securities made or issued in connection with projects funded with proceeds of Senior Bonds are not sufficient to pay debt service when due, and (2) to pay debt service on the portions of the Senior Bonds issued to fund grants.

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.

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 2004-05. 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 2004-05

	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05[1]
Total Net Receipts	$20,994,555	$20,616,433	$22,908,393	$24,491,159	$24,593,886
NMFA Portion of the Governmental Gross Receipts Tax	$15,745,916	$15,462,325[2]	$17,181,295	$18,368,369	$18,445,414

(1) Unaudited.

(2) 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 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

Entity	Fiscal Year 2002-03 Amount Paid	Fiscal Year 2002-03 % of Total Net Receipts	Fiscal Year 2003-04 Amount Paid	Fiscal Year 2003-04 % of Total Net Receipts	Fiscal Year 2004-05(2) Amount Paid	Fiscal Year 2004-05(2) % of Total Net Receipts
Albuquerque Bernalillo County Water Utility Authority(1)			$5,992,345	24.47%	$5,840,450	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	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.

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 Agencies that such amendment will not result in the rating on the Bonds and the PPRF Secured Obligations, following such amendment, being lower than the rating on the Bonds and the PPRF Secured Obligations immediately prior to such amendment. See Appendix B – "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – Supplemental Indentures, Amendments to Agreements, and Amendments and Supplements to Senior 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, Additional Pledged Loan documents and any existing Security Documents 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 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 "Bond Insurer") for use in this Official Statement. Such information regarding the Bond

Insurer and the 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 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 Bond Insurance Policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representation regarding the Series 2005F Bonds or the advisability of investing in the Series 2005F Bonds.

The 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 Series 2005F 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 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, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (2) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2005F 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 Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2005F Bonds. The 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 Series 2005F 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 Series 2005F Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2005F 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 2005F 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 2005F Bonds or presentment of such other proof of ownership of the Series 2005F Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2005F Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2005F Bonds in any legal proceeding related to payment of insured amounts on the Series 2005F 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 2005F 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 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 Series 2005F 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 2005F Bonds. MBIA does not guaranty the market price of the Series 2005F Bonds nor does it guaranty that the ratings on the Series 2005F 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 June 30, 2005, MBIA had admitted assets of $10.7 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.7 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 June 30, 2005 and for the six month periods ended June 30, 2005 and June 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 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;

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005; and

(3) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 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 Securities 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 Series 2005F 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 quarters ended March 31, 2005 and June 30, 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 Series 2005F Bonds

Proceeds from the sale of the Series 2005F Bonds will be used by the NMFA to directly fund, or to reimburse the Public Project Revolving Fund for, loans made by the NMFA to Governmental Units for the purpose of financing public projects, to purchase a Reserve Instrument, and to pay costs of issuance. See Appendix G for a list of the Governmental Units and the outstanding balances of the Loans financed with the Bonds, including the Series 2005F Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2005F Bonds are presented in the following table.

Sources and Uses of Funds

SOURCES:	
Par Amount	$21,950,000.00
Net Premium/Discount	720,792.60
TOTAL SOURCES:	$22,670,792.60
USES:	
Reimbursement of Loans(1)	$22,132,078.10
Costs of Issuance(2)	538,714.50
TOTAL USES:	$22,670,792.60

(1) Includes reimbursement of the Public Project Revolving Fund of amounts used to make Loans.

(2) Includes legal and accounting fees, financial advisory fees, printing and electronic posting costs, rating fees, trustee fees, underwriters' discount, premiums for a Bond Insurance Policy and a Reserve Instrument and other miscellaneous costs. See "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2005F Bonds and all other currently Outstanding Bonds for each fiscal year through their respective final maturity dates.

Debt Service for the Bonds

Fiscal Year	Series 2005F Bonds Principal[1]	Interest[2] [3]	Total[3]	All Other Outstanding Bonds[3][4]	Total for Bonds[3] [5]
2006	$ -	$ 535,147	$ 535,147	$ 5,395,387	$ 5,930,534
2007	735,000	1,024,750	1,759,750	5,641,224	7,400,974
2008	180,000	995,350	1,175,350	5,642,841	6,818,191
2009	940,000	988,150	1,928,150	5,642,069	7,570,219
2010	455,000	952,900	1,407,900	5,644,831	7,052,731
2011	445,000	935,838	1,380,838	5,644,431	7,025,269
2012	880,000	918,038	1,798,038	5,643,594	7,441,631
2013	850,000	882,838	1,732,838	5,709,344	7,442,181
2014	1,220,000	846,713	2,066,713	5,768,094	7,834,806
2015	1,210,000	785,713	1,995,713	5,770,344	7,766,056
2016	1,285,000	726,525	2,011,525	6,116,519	8,128,044
2017	1,370,000	675,125	2,045,125	6,179,169	8,224,294
2018	1,440,000	608,500	2,048,500	6,232,419	8,280,919
2019	1,400,000	536,500	1,936,500	6,789,469	8,725,969
2020	1,395,000	477,000	1,872,000	8,818,713	10,690,713
2021	1,420,000	407,250	1,827,250	8,684,713	10,511,963
2022	1,575,000	336,250	1,911,250	8,560,713	10,471,963
2023	1,650,000	257,500	1,907,500	8,430,963	10,338,463
2024	1,740,000	175,000	1,915,000	8,314,963	10,229,963
2025[6]	1,760,000	88,000	1,848,000	8,191,463	10,039,463

(1) Payable on June 15 of each year. Includes mandatory sinking fund payments, if any.
(2) Payable on June 15 and December 15 of each year, commencing June 15, 2006.
(3) Amounts are rounded to the nearest whole dollar. Totals may not add due to rounding.
(4) Represents principal of and interest on Bonds anticipated to be outstanding as of December 15, 2005, other than the Series 2005F Bonds.
(5) Represents principal of and interest on Bonds anticipated to be outstanding as of December 15, 2005, including the Series 2005F Bonds.
(6) Final maturity.

Source: George K. Baum and Company.

The following table shows estimated available revenues pledged to the payment of the Bonds, total debt service requirements for the Series 2005F Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on the three year average of the fiscal year 2002-03, 2003-04 and 2004-05 releases of PPRF Revenues from the Senior Indenture and scheduled payments under the Agreements and Additional Pledged Loans (of which there are currently none), 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 –Trust Estate – Subordinate Lien PPRF Revenues," "– The Agreements and the Agreement Revenues" for descriptions of the revenues presented in the table under the headings "Subordinate Lien PPRF Revenues" and "Agreement Revenues." See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS –Trust Estate – Subordinate Lien PPRF Revenues" for a list of some factors affecting Subordinate Lien PPRF Revenues.

Annual Debt Service Requirements and Projected Coverage Ratios

	Revenues				
Fiscal Year	Subordinate Lien PPRF Revenues[(1)]	Agreement Revenues[(2) (3)]	Estimated Total Revenues[(3)]	Total Debt Service Requirements[(3)]	Estimated Annual Coverage Ratios[(4)]
2006	$24,739,817	$ 5,943,890	$30,683,707	$ 5,930,534	5.17x
2007	24,739,817	7,612,772	32,352,589	7,400,974	4.37
2008	24,739,817	6,939,593	31,679,410	6,818,191	4.65
2009	24,739,817	7,689,407	32,429,224	7,570,219	4.28
2010	24,739,817	7,175,383	31,915,200	7,052,731	4.53
2011	24,739,817	7,137,475	31,877,292	7,025,269	4.54
2012	24,739,817	7,544,190	32,284,007	7,441,631	4.34
2013	24,739,817	7,547,596	32,287,413	7,442,181	4.34
2014	24,739,817	7,939,620	32,679,437	7,834,806	4.17
2015	24,739,817	7,847,551	32,587,368	7,766,056	4.20
2016	24,739,817	8,185,300	32,925,117	8,128,044	4.05
2017	24,739,817	8,263,189	33,003,006	8,224,294	4.01
2018	24,739,817	8,313,529	33,053,346	8,280,919	3.99
2019	24,739,817	8,754,920	33,494,737	8,725,969	3.84
2020	24,739,817	10,709,403	35,449,220	10,690,713	3.32
2021	24,739,817	10,515,420	35,255,237	10,511,963	3.35
2022	24,739,817	10,478,670	35,218,487	10,471,963	3.36
2023	24,739,817	10,339,765	35,079,582	10,338,463	3.39
2024	24,739,817	10,231,785	34,971,602	10,229,963	3.42
2025	24,739,817	10,037,640	34,777,457	10,039,463	3.46

(1) Future collections of the Subordinate Lien PPRF Revenues are based on the average of fiscal year 2002-03, 2003-04 and 2004-05 collections provided by the NMFA. Fiscal year 2004-05 collections were unusually large due to repayment of several direct short-term loans from the Public Project Revolving Fund. As shown, do not reflect any possible future reduction for payment of debt service on Senior Bonds.

(2) Represents scheduled payments under Agreements and does not reflect the prepayment of any such bonds that may occur while the Subordinate Bonds are outstanding. Totals for fiscal years 2005-06 and 2006-07 do not reflect capitalized interest.

(3) Amounts are rounded to the nearest dollar. Totals may not add due to rounding.

(4) The Estimated Annual Coverage Ratios are calculated using the three-year average of the fiscal years 2002-03, 2003-04 and 2004-05 Subordinate Lien PPRF Revenues, assuming that no Additional Bonds will be issued pursuant to 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, currently employs 30 persons, including an Executive Director, and is in the process of hiring two additional employees. 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 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 establishes 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 Series 2005F 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., on the Board of Directors of Open Hands and of 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 Investment Officer. Mr. Mellor joined the NMFA in November 1995 and has served in various positions, most recently as Chief Financial Officer. Mr. Mellor tendered his resignation, effective October 14, 2005, to accept the position of Controller for the University of New Mexico Health Sciences Center. Mr. Mellor will continue to function as Chief Investment Officer on a part-time basis through the end of October 2005. Before coming to the NMFA, Mr. Mellor was controller for the Los Alamos Credit Union. He brought with him an extensive background in controllership, investment portfolio management, governmental auditing and accounting. 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.

The NMFA has initiated a nationwide search for a Chief Investment Officer.

Joe Gosline, Finance Director. Mr. Gosline joined the NMFA in the newly constituted position of Finance Director on October 24, 2005. Mr. Gosline has 15 years of experience in financial management. He previously worked with the NMFA for 5½ 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 an M.B.A. 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's 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 B.S. in Agricultural Economics/Agricultural Business and an M.B.A.

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 September 30, 2005, the NMFA had made 470 PPRF loans totaling more than $643 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; (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 Senior 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 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 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 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 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 three previous series of 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 Parity Bonds" for a description of series of outstanding 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 Series 2005F Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Subordinate Lien Revenues for the payment of the debt service on the Series 2005F Bonds or in any way contesting or affecting the validity or enforceability of the Series 2005F 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 2005F Bonds.

UNDERWRITING

George K. Baum and Company, RBC Dain Rauscher, Inc. and Ramirez & Co., Inc. (the "Underwriters") have agreed to purchase the Series 2005F Bonds from the NMFA pursuant to a Bond Purchase Agreement dated

October 27, 2005 (the "Bond Purchase Agreement"), at an aggregate price of $22,536,128.10 (being the aggregate principal amount plus a net original issue premium of $720,792.60 and less underwriter's discount of $134,664.50). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2005F 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 2005F Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the inside 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 2005F Bonds. The NMFA has 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 2005F Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005F 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 with such requirements and restrictions in rendering its opinion regarding the tax exempt status of interest on the Series 2005F 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 2005F 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 2005F 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 2005F 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 2005F Bonds.

Original Issue Premium. Certain of the Series 2005F Bonds are offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2005F Bond through reductions in the holder's tax basis for the Series 2005F 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 2005F Bond rather than creating a deductible expense or loss. Series 2005F Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the Series 2005F 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 2005F Bond accrues as tax-exempt interest periodically over the term of the Series 2005F Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2005F Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2005F 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 2005F 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 2005F 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 their 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 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 Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Disclosure Counsel to the NMFA. Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico, will serve as counsel for the Underwriters. 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 2005F 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, 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 in connection with the issuance of the Series 2005F Bonds, the NMFA will execute and deliver a Continuing Disclosure Undertaking pursuant to which it will agree to provide the following information:

- to each nationally recognized municipal securities information repository ("NRMSIR") by 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 Series 2005F Bonds who requests such information):

- annual financial information and operating data concerning the Subordinate Lien PPRF Revenues, such information to be of the type set forth under the table captioned "Historic Subordinate Lien PPRF Revenues – Fiscal Years 2000-01 Through 2004-05 (Released to NMFA on June 1)" under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Trust Estate – Subordinate Lien PPRF Revenues" 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 Subordinate Lien Revenues for the then-current fiscal year (the "20% Test"), and each additional Governmental Unit designated by the NMFA by such business day, information concerning the four-year history of the specific revenues constituting such Governmental Unit's Agreement 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 Series 2005F 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 Series 2005F Bonds;
  - modification of rights of security holders;
  - bond calls;
  - defeasances;
  - release, substitution, or sale of property securing repayment of the Series 2005F 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 Series 2005F 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 Series 2005F 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 Series 2005F Bonds.

Continuing disclosure undertakings previously entered into by the NMFA with respect to certain of the Senior Bonds 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.

None of the Securities represent annual Loan repayment obligations exceeding 20% of estimated Subordinate Lien Revenues in the first full year immediately following issuance of the Series 2005F Bonds.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa" and "AAA," respectively, to the Series 2005F Bonds, based on the understanding that upon the delivery of the Series 2005F Bonds, the Bond Insurance Policy will be issued by MBIA. In addition, Moody's and Fitch have assigned underlying (*i.e.*, without regard to the Bond Insurance Policy) long-term ratings of "A2" and "A+," respectively, to the Series 2005F Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, 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 2005F 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 2005F Bonds may have an adverse effect on the market price of the Series 2005F Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2005F Bonds any proposed revision or withdrawal of the ratings on the Series 2005F 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 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 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 2005F Bonds.

APPROVAL BY THE NMFA

The distribution of this Official Statement and its 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, 2004

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NEFF + RICCI LLP

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CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

A-1

NEW MEXICO FINANCE AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2004

TABLE OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

OF CONTENTS

NEW MEXICO FINANCE AUTHORITY

A-2

NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2004

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)
A-4 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.

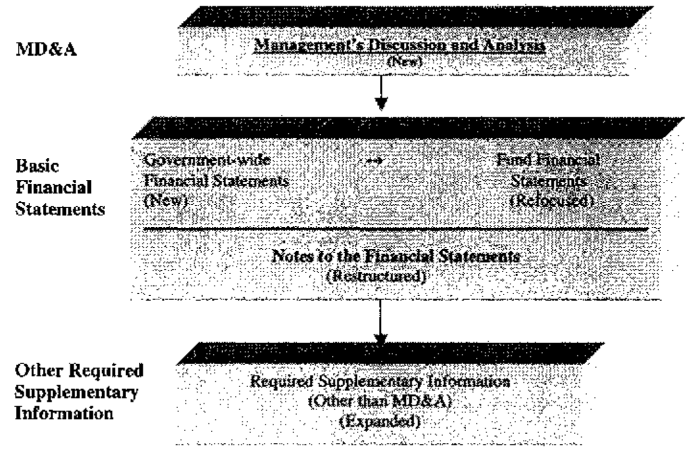
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project 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.

A-5

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:



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.

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.

A-7

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

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).

A-9

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

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	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	$ -	-	2,195,870	3,201,122	16,286,452	73,569	17,069,269	39,940,824	3,291,994	82,059,100
Tax revenue receivable	-	-	452,613	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
	-	-	2,648,483	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	-	-	4,136,966	-	-	-	-	-	57,977	4,194,943
Bond reserve	-	-	70,128	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	-	-	4,207,094	1,444,671	-	32,241,774	-	-	651,677	38,545,216
Total assets	$ -	-	6,855,577	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	-	-	111,140	-	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	-	-	111,140	2,000,000	321,568	1,757,059	72,642	10,262	302,544	4,575,215
Fund balances - reserved for										
Debt service	-	-	6,744,437	-	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	-	-	6,744,437	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	$ -	-	6,855,577	4,886,131	16,786,452	32,315,343	17,069,269	39,940,824	4,750,395	122,603,991

See Notes to Financial Statements.

A-11

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)

A-12

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NEW MEXICO FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

A-13

	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

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.

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.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

A-24

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			Bank	Book
	1	2	3	Balance	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.

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.

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.

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.

A-32

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.

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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

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

A-34

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

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 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 Indenture, and are not to be considered as a full statement thereof. Reference is 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 2005F Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the Series 2005F Bonds, copies of the Indenture may be obtained from the Trustee.

Definitions

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

"Accreted Amount" means, with respect to Capital Appreciation Bonds of any Series and as of the date of calculation, the amount established pursuant to the Supplemental Indenture authorizing such Capital Appreciation Bonds as the amount representing the initial public offering price, plus the accumulated and compounded interest on such Bonds.

"Act" means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-31, inclusive, NMSA 1978, as amended and supplemented and the Public Securities Short-Term Interest Rate Act, being Sections 6-18-1 through 6-18-16, inclusive, NMSA 1978, as amended and supplemented.

"Additional Bonds and PPRF Secured Obligations" means any Bonds of the NMFA authorized and issued under the Indenture and any PPRF Secured Obligations secured by the lien of the Indenture in compliance therewith, except for the Initial 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 PPRF Secured Obligations and other amounts due under the Indenture. No such loans or securities will be deemed to be Additional Pledged Loans unless such loan or security is identified as an Additional Pledged Loan in a Supplemental Indenture or Pledge Notification or the Trustee has received written notice from the NMFA that a specific loan or security will be included under the Indenture. Additional Pledged Loans do not include loans identified as Additional Senior Pledged Loans.

"Additional Pledged Revenues" means any additional revenues received by the NMFA and designated as part of the Trust Estate pursuant to the Indenture or pursuant to a Supplemental Indenture or Pledge Notification. Additional Pledged Revenues are not revenues attributable to Additional Pledged Loans.

"Additional Senior Pledged Loans" means additional pledged loans at any time pledged pursuant to the Senior Indenture.

"Aggregate Annual Debt Service" means, for any given Bond Fund Year, the sum of the Debt Service payable on all Bonds Outstanding or to be Outstanding (less capitalized interest and principal payable on any Subordinated Bond Anticipation Obligations), and any Security Instrument Repayment Obligations for such Bond Fund Year.

“Agreement” or “Agreements” means, as the case may be, one or more Loan 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 Indenture.

“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.

“Agreement Revenues” means amounts received or earned by the NMFA from or attributable to the Agreements. Agreement Revenues does not include amounts received from Additional Pledged Loans.

“Approval of Bond Counsel” means an opinion of Bond Counsel to the effect that the matter proposed will not adversely affect the excludability, if any, from gross income for federal income tax purposes of interest on the 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 PERCENTAGE
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

For purposes of calculating Assumed Repayments of Loans and Additional Pledged Loans for a Series of Bonds for which there are Uncommitted Proceeds, and for purposes of calculating Assumed Repayments of PPRF Secured Obligations, the Assumed Repayments of Loans and Additional Pledged Loans in the amount of the Uncommitted Proceeds and PPRF Secured Obligations will be treated as if they were Category IV Loans and Additional Pledged Loans.

“Authorized Amount” means, with respect to a Commercial Paper Program, the maximum principal amount of commercial paper which is then authorized by the NMFA to be outstanding at any one time pursuant to such Commercial Paper Program.

“Authorized Denominations” with respect to any Series of Bonds issued under the Indenture, has the meaning specified in the related Supplemental Indenture.

“Authorized Officer” means: (i) in the case of the NMFA, the Chair, any Vice Chair, Secretary, the Executive Director, the Chief Operating Officer, the Chief Financial Officer, or the 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 document; (ii) in the case of a Governmental Unit, means the person or persons authorized by law, resolution or ordinance of the Governmental Unit to perform any act or sign 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.

“Balloon Bonds” means Bonds (and/or Security Instrument Repayment Obligations relating thereto) other than Bonds which mature within one year from the date of issuance thereof, 25% or more of the Principal Installments on which, during any period of twelve consecutive months (a) are due or (b) at the option of the Owner thereof may be redeemed.

"Bond Anticipation Obligations" means notes, lines of credit or other obligations issued or incurred by the NMFA pursuant to the Indenture in advance of the permanent financing of the NMFA for a Project or in connection with any other purposes of the NMFA.

"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 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 ending on June 15 of each year, except that the first Bond Year will commence on the date of initial delivery of the Initial Bonds and will end on June 15, 2005.

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

"Bonds" means all Bonds, Bond Anticipation Obligations, notes, commercial paper or other obligations (other than PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations) authorized by, issued under and secured by the Indenture, including the Initial Bonds and any Additional Bonds.

"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.

"Capital Appreciation Bonds" means Bonds, the interest on which (a) is compounded and accumulated at the rates and on the dates set forth in the Supplemental Indenture authorizing the issuance of such Bonds and designating them as Capital Appreciation Bonds, and (b) is payable upon maturity or redemption of such Bonds.

"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 or PPRF Secured Obligations expected to be issued or redeemed or purchased for cancellation in each such Bond Fund Year or Interest Rate Swaps to be executed, 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 or Additional Pledged Revenues 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 Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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;

(C) the earnings on the Bond Fund and the Debt Service Reserve Fund for each such Bond Fund Year; and

(D) the Aggregate Annual Debt Service for each such Bond Fund Year on all Bonds, PPRF Secured Obligations and Security Instrument Repayment Obligations reasonably expected to be Outstanding;

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

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

(i) the Subordinate Lien PPRF Revenues and Additional Pledged Revenues 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 a year in which a Cash Flow Statement is prepared, the Aggregate Annual Debt Service and Assumed Repayments of Loans and Additional Pledged Loans will be included in calculating the ratio described above;

(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; and

(iv) earnings on the Bond Fund will be assumed to equal the greatest amounts from any consecutive 12 months of the immediately preceding 24 months.

"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 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 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 PPRF Secured Obligations, 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 fully 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.

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

"Commercial Paper Program" means commercial paper obligations with maturities of not more than two hundred seventy (270) days from the dates of issuance thereof which are issued and reissued by the NMFA from time to time pursuant to the Indenture and are outstanding up to an Authorized Amount.

"Covenant Default" with respect to any Loan Agreement, Securities or Additional Pledged Loan means any default or event of default under the Indenture other than (i) a default in payment of principal or interest under the Indenture; (ii) a rendering of the obligor, unable to perform its obligations under the Indenture; or (iii) a bankruptcy, insolvency or similar proceeding with respect to the obligor under the Indenture.

"Cross-over Date" means with respect to Cross-over Refunding Bonds the date on which the Principal portion of the related Cross-over Refunded Bonds is to be paid or redeemed from the proceeds of such Cross-over Refunding Bonds.

"Cross-over Refunded Bonds" means Bonds or other obligations refunded by Cross-over Refunding Bonds.

"Cross-over Refunding Bonds" means Bonds issued for the purpose of refunding Bonds or other obligations if the proceeds of such Cross-over Refunding Bonds are irrevocably deposited in escrow to secure the payment on an applicable redemption date or maturity date of the Cross-over Refunded Bonds (subject to possible use to pay Principal of the Cross-over Refunding Bonds under certain circumstances) and the earnings on such escrow deposit are required to be applied to pay interest on the Cross-over Refunding Bonds until the Cross-over Date.

"Current Interest Bonds" means Bonds not constituting Capital Appreciation Bonds. Interest on Current Interest Bonds will be payable periodically on the Interest Payment Dates provided therefor in a Supplemental Indenture.

"Debt Service" means, for any particular Bond Fund Year and for any Series of Bonds, any PPRF Secured Obligations, and any Security Instrument Repayment Obligations, an amount equal to the sum of (a) all interest payable during such Bond Fund Year on such Series of Bonds, any PPRF Secured Obligations and any Security Instrument Repayment Obligations plus (b) the Principal Installments, if any, payable during such Bond Fund Years on such Series of Bonds (other than Subordinated Bond Anticipation Obligations) any PPRF Secured Obligations and any Security Instrument Repayment Obligations; provided, however for purposes of the Indenture and for purposes of preparing a Cash Flow Statement,

(1) when calculating interest payable during such Bond Fund Year for any Series of Variable Rate Bonds (for which there is no Interest Rate Swap) or Security Instrument Repayment Obligations or any PPRF Secured Obligations bearing interest at a variable rate which cannot be ascertained for any particular Bond Fund Year, it will be assumed that such Series of Variable Rate Bonds or related Security Instrument Repayment Obligations or any PPRF Secured Obligations will bear interest at such market rate of interest applicable to such Series of Variable Rate Bonds or related Security Instrument Repayment Obligations or any PPRF Secured Obligations as are established for this purpose in the opinion of the NMFA's financial advisor, underwriter or similar agent (which market rate of interest may be based upon a recognized comparable market index, an average of interest rates for prior years or otherwise, so long as such estimates are based upon the then-current market conditions);

(2) when calculating interest payable during such Bond Fund Year for any Series of Variable Rate Bonds for which an Interest Rate Swap will be in effect, pursuant to which, the NMFA has agreed to pay a fixed rate of interest and the SWAP Counterparty has agreed to pay a variable rate of interest, which rate an Authorized Officer of the NMFA has certified in a written certificate of the NMFA approximates or is intended to approximate the variable rate payable on such Series of Variable Rate Bonds, such Series of Variable Rate Bonds will be deemed to bear interest at the fixed rate provided in such Interest Rate Swap; provided that such fixed rate may be utilized only so long as such Interest Rate Swap is contracted to remain in full force and effect;

(3) when calculating interest payable during such Bond Fund Year for any Series of Bonds which are issued with a fixed interest rate and with respect to which an Interest Rate Swap is in effect pursuant to which the NMFA has agreed to pay a variable rate of interest and the SWAP Counterparty has agreed to pay a fixed rate of interest, which rate an Authorized Officer of the NMFA has certified in a written certificate of the NMFA approximates or is intended to approximate the fixed rate payable on such Series of Bonds, such Series of Bonds will be deemed to bear interest at such market rate as will be established for this purpose, in the opinion of the NMFA's financial advisor, underwriter or similar agent (which market rate of interest may be based upon a recognized comparable market index, an average of interest rates for prior years or otherwise, so long as such estimates are based upon the then-current market conditions); provided that such variable rate will be utilized only so long as such Interest Rate Swap is contracted to remain in full force and effect;

(4) when calculating the Principal Installments payable during such Bond Fund Year on any Series of Balloon Bonds, there will be treated as payable in such Bond Fund Year the amount of Principal Installments which would have been payable during such Bond Fund Year had the Principal of each Series

of Balloon Bonds Outstanding and the related Security Instrument Repayment Obligations then Outstanding (or arising therefrom) been amortized, from their date of issuance over a period of 25 years, on a level debt service basis at an interest rate equal to the rate borne by such Balloon Bonds on the date of calculation, provided that if the date of calculation is within twelve months before the actual maturity of such Balloon Bonds or Security Instrument Repayment Obligations, the full amount of Principal payable at maturity will be included in such calculation;

(5) when calculating principal and interest payable during such Bond Fund Year with respect to any Commercial Paper Program, "Debt Service" means an amount equal to the sum of all principal and interest payments that would be payable during such Bond Fund Year assuming that the Authorized Amount of such Commercial Paper Program is amortized on a level debt service basis over a period of 25 years beginning on the date of calculation or, if later, the last day of the period during which obligations can be issued under such Commercial Paper Program, and bearing interest at the maximum interest rate applicable to such Commercial Paper Program;

provided, however, that there will be excluded from Debt Service (x) interest on Bonds (including Cross-over Refunding Bonds or Cross-over Refunded Bonds) to the extent that Escrowed Interest or capitalized interest is available to pay such interest, (y) Principal on Cross-over Refunded Bonds to the extent that the proceeds of Cross-over Refunding Bonds are on deposit in an irrevocable escrow, and such proceeds or the earnings thereon are required to be applied to pay such Principal (subject to the possible use to pay the Principal of the Cross-over Refunding Bonds under certain circumstances) and such amounts so required to be applied are sufficient to pay such Principal, and (z) Security Instrument Repayment Obligations to the extent that payments on Pledged Bonds relating to such Security Instrument Repayment Obligations satisfy the NMFA's obligation to pay such Security Instrument Repayment Obligations.

"Debt Service Fund" means the fund by that name established by the Indenture to be held by the Trustee and each Account created therein.

"Debt Service Reserve Fund" means the fund by that name created in the Indenture to be held by the Trustee and administered pursuant to the Indenture and each Account created therein.

"Debt Service Reserve Requirement" means with respect to each Series of Bonds issued pursuant to the Indenture, unless otherwise provided in the related Supplemental Indenture, an amount equal to the least of (i) 10% of the proceeds of such Series of Bonds determined on the basis of original principal amount (unless original issue premium or original issue discount exceeds 2% of original principal, then determined on the basis of initial purchase price to the public), (ii) the maximum annual Debt Service during any Bond Fund Year for such Series of Bonds, and (iii) 125% of the average annual Debt Service for such Series of Bonds; provided, however, that in the event any Series of Additional Bonds is issued to refund only a portion and not all of the then Outstanding Bonds of any other Series of Bonds issued pursuant to the Indenture (the "Prior Bonds"), then the portion of such Series of Prior Bonds that remain Outstanding immediately after the issuance of such Additional Bonds and the portion of such Additional Bonds that is allocable to the refunding of such Series of Prior Bonds may be combined and treated as a single Series for the purpose of determining the Debt Service Reserve Requirement relating to such combined Series and the resulting requirement will be allocated among the two Series pro rata based upon the total principal amount remaining Outstanding for each Series. The Debt Service Reserve Requirement may be funded entirely or in part by one or more Reserve Instruments as provided in the Indenture or, if provided in the related Supplemental Indenture, may be accumulated over time. Each Account of the Debt Service Reserve Fund will only be used with respect to the related Series of Bonds.

"Escrowed Interest" means amounts irrevocably deposited in escrow in connection with the issuance of Additional Bonds for refunding purposes or Cross-over Refunding Bonds secured by such amounts or earnings on such amounts which are required to be applied to pay interest on such Cross-over Refunding Bonds or the related Cross-over Refunded Bonds.

"Event of Default" means with respect to any default or event of default under the Indenture any occurrence or event specified in and defined by the Indenture.

“Expense Fund” means the Fund by that name established by the Indenture to be held by the Trustee.

“Fitch” means Fitch Ratings.

“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, the Bond Fund and the Debt Service Reserve Fund and the Accounts created therein.

“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 the NMFA and any “qualified entity” under the Act which has executed and delivered to the NMFA a Loan Agreement or Securities for the purpose of financing all or a portion of a Project under the Indenture.

“Indenture” means this Subordinated General Indenture of Trust and Pledge and all Supplemental Indentures thereto.

“Initial Bonds” means the NMFA’s $50,395,000 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and $8,660,000 Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D.

“Interest Component” has the meaning given in the Indenture.

“Interest Payment Date,” with respect to each Series of Bonds and PPRF Secured Obligations, has the meaning set forth in the related Supplemental Indenture.

“Interest Rate Swap” means an agreement between the NMFA or the Trustee (at the written direction of the NMFA) and a SWAP Counterparty providing for an interest rate cap, floor or swap with respect to any Bonds.

“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.

“Moody’s” means Moody’s Investors Service, Inc.

“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 under the Indenture.

"Outstanding" or "Bonds outstanding" means 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 is 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 has been given in accordance with the Indenture or provided for in a manner satisfactory to the Trustee; and

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

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

"Outstanding" includes all Bonds the principal and/or interest on which have been paid by any bond insurer pursuant to municipal bond insurance policy.

"PPRF Revenues" means collectively, the NMFA Portion of the Governmental Gross Receipts Tax and the revenues from the Additional Senior Pledged Loans, which amounts are to be deposited to the revenue fund created under the Senior Indenture.

"PPRF Secured Obligations" means any bond, note or other obligation identified in a Supplemental Indenture or Pledge Notification as a PPRF Secured Obligation under the Indenture and secured in accordance with the provisions of the Indenture. PPRF Secured Obligations are not "Bonds" as defined in the Indenture.

"Paying Agent" means the Trustee or any successor or additional paying agent appointed pursuant to the Indenture.

"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 or the authorizing document for such Agreement, and (ii) with respect to the investment of the Revenue Fund, the Bond Fund, the Debt Service Reserve 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 or 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 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") rated AAA by Standard & Poor's and Aaa by *Moody's 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 receive fees for investment advisory or other services to such fund;

(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 and which matures not more than 270 days after the date of purchase;

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in the highest long-term rating category 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" 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 and, if the amounts to be invested are in the Revenue Fund, such agreement must be approved in writing prior to its acquisition by each bond insurer then insuring any Series of Bonds; provided further, if the amounts to be invested are in the Bond Fund and relate to a Series of Bonds that have been or are then being insured by a bond insurer, such agreement must be approved in writing prior to its acquisition by the bond insurer then insuring such Series of Bonds;

(k) Investment contracts with providers the long term, unsecured debt obligations of which are rated at least "Aaa" by the Rating Agencies and, if the amounts to be invested are in the Revenue Fund, such agreement must be approved in writing prior to its acquisition by each bond insurer then insuring any Series of Bonds; provided further, if the amounts to be invested are in the Bonds Fund and relate to a Series of Bonds that have been or are then being insured by a bond insurer, such agreement must be approved in writing prior to its acquisition by the bond insurer then insuring such Series of Bonds; and

(l) The State Treasurer's short-term investment fund created pursuant to Section 6-10-10.1, NMSA 1978, maintained and invested by the State Treasurer.

"Pledge Notification" means a written notice, executed by an Authorized Officer and delivered to the Trustee, (i)(a) pledging one or more Additional Pledged Loans or (b) identifying loans or securities or obligations to be funded from Uncommitted Proceeds and designating such loans or securities as "Loans" under the Indenture, (ii) describing the Project financed or to be financed with the Additional Pledged Loan or the loan or security to be funded from Uncommitted Proceeds, as appropriate, and (iii) 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 the loan or security to be funded from Uncommitted Proceeds, as appropriate.

"Pledged Bonds" means any Bonds that have been (i) pledged or in which any interest has otherwise been granted to a Security Instrument Issuer as collateral security for Security Instrument Repayment Obligations or (ii) purchased and held by a Security Instrument Issuer pursuant to a Security Instrument.

"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" means (a) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest), except as used in connection with the authorization and issuance of Bonds and with the order of priority of payment of Bonds after an Event of Default, in which case "Principal" means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest), and (b) with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity.

"Principal Component" has the meaning given in the Indenture.

"Principal Installment" means, as of any date of calculation, (a) with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, the Principal amount of Bonds of such Series due on a certain future date, and (b) with respect to any Security Instrument Repayment Obligations, the principal amount of such Security Interest Repayment Obligations due on a certain future date.

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

"Program Costs" means the fees and expenses payable to the Trustee, any Paying Agent, any Remarketing Agent, any Broker-Dealer, any Auction Agent and any other agent consultant engaged to carry out the purposes of the NMFA and the NMFA and Security Instrument Costs.

"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 or refinancing by the NMFA from the Public Project Revolving Fund (to the extent required by law) and (ii) described in a Supplemental Indenture or a Pledge Notification.

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

"Put Bond" means any Bond that is part of a Series of Bonds subject to purchase by the NMFA, its agent or a third party from the Owner of the Bond pursuant to provisions of the Supplemental Indenture authorizing the issuance of the Bond.

"Rating Agencies" means Moody's, Fitch and S&P, or any of their successor and assigns and any other nationally recognized rating service designated by the NMFA and then maintaining a rating on the Bonds or PPRF Secured Obligations. For purposes of the Cash Flow Statement, however, "Rating Agencies" means Moody's Investors Service, Inc. and Fitch Ratings or their successors and assigns; provided that, if more than one such Rating Agency shall be categorizing Loans and Additional Pledged Loans, for purposes of assigning a category, "Rating Agencies" shall refer to the Rating Agency assigning the lower of the categorizations.

"Rebate Calculation Date" means, with respect to each Series of Bonds (other than Taxable 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.

"Regular Record Date" means, unless otherwise provided in a Supplemental Indenture, with respect to the Bonds, 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).

"Registered Owner" or "Owner" or "Bond holder" or "holder" means (i) when used with respect to the Bonds the person or persons in whose name or names a Bond is registered on the books of the Trustee kept for that purpose in accordance with provisions of the Indenture and (ii) when used with respect to the PPRF Secured Obligations the registered owners or other holders thereof (if not registered).

"Reimbursement Bonds" means Bonds issued for the purpose of reimbursing the NMFA for Projects financed with cash advanced from the Public Project Revolving Fund.

"Remarketing Agent" means a remarketing agent or commercial paper dealer appointed by the NMFA pursuant to a Supplemental Indenture.

"Reserve Instrument" means a device or instrument issued by a Reserve Instrument Provider to satisfy all or any portion of the Debt Service Reserve Requirement applicable to a Series of Bonds. The term "Reserve Instrument" includes, by way of example and not of limitation, letters of credit, bond insurance policies, surety bonds, standby bond purchase agreements, lines of credit and other devices.

"Reserve Instrument Agreement" means any agreement entered into by the NMFA and a Reserve Instrument Provider pursuant to a Supplemental Indenture (including the applicable portions of a Supplemental Indenture) and providing for the issuance by such Reserve Instrument Provider of a Reserve Instrument.

"Reserve Instrument Costs" means all fees, premiums, expenses and similar costs, other than Reserve Instrument Repayment Obligations, required to be paid to a Reserve Instrument Provider pursuant to a Reserve Instrument Agreement. Each Reserve Instrument Agreement will specify the fees, premiums, expenses and costs constituting Reserve Instrument Costs.

"Reserve Instrument Coverage" means, as of any date of calculation, the aggregate amount available to be paid to the Trustee pursuant to the Indenture under all Reserve Instruments.

"Reserve Instrument Fund" means the fund by that name created in the Indenture to be held by the Trustee and administered pursuant to the Indenture.

"Reserve Instrument Limit" means, as of any date of calculation and with respect to any Reserve Instrument, the maximum aggregate amount available to be paid under such Reserve Instrument into the Debt Service Reserve Fund assuming for purposes of such calculation that the amount initially available under each Reserve Instrument has not been reduced or that the amount initially available under each Reserve Instrument has only been reduced as a result of the payment of principal of the applicable Series of Bonds.

"Reserve Instrument Provider" means any bank, savings and loan association, savings bank, thrift institution, credit union, insurance company, surety company or other institution issuing a Reserve Instrument.

"Reserve Instrument Repayment Obligations" means, as of any date of calculation and with respect to any Reserve Instrument Agreement, those outstanding amounts payable by the NMFA under such Reserve Instrument Agreement to repay the Reserve Instrument Provider for payments previously made by it pursuant to a Reserve Instrument. There will not be included in the calculation of Reserve Instrument Repayment Obligations any Reserve Instrument Costs.

"Revenue Fund" means the Subordinated 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.

"S&P" means Standard & Poor's Ratings Group.

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

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

"Security Instrument" means an instrument or other device issued by a Security Instrument Issuer to pay, or to provide security or liquidity for, a Series of Bonds. The term "Security Instrument" includes, by way of example and not of limitation, letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit and other security instruments and credit enhancement or liquidity devices; provided, however, that no such device or instrument is a "Security Instrument" for purposes of the Indenture unless specifically so designated in a Supplemental Indenture authorizing the use of such device or instrument.

"Security Instrument Agreement" means any agreement entered into by the NMFA and a Security Instrument Issuer pursuant to a Supplemental Indenture and/or the applicable portions of a Supplemental Indenture providing for the issuance by such Security Instrument Issuer of a Security Instrument.

"Security Instrument Costs" means, with respect to any Security Instrument, all fees, premiums, expenses and similar costs, other than Security Instrument Repayment Obligations, required to be paid to a Security Instrument Issuer pursuant to a Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument. Such Security Instrument Agreement or Supplemental Indenture will specify any fees, premiums, expenses and costs constituting Security Instrument Costs.

"Security Instrument Issuer" means any bank or other financial institution, insurance company, surety company or other institution issuing a Security Instrument.

"Security Instrument Repayment Obligations" means, as of any date of calculation and with respect to any Security Instrument Agreement, any outstanding amounts payable by the NMFA under the Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument to repay the Security Instrument Issuer for payments previously or concurrently made by the Security Instrument Issuer pursuant to a Security Instrument. There will not be included in the calculation of the amount of Security Instrument Repayment Obligations any Security Instrument Costs. Each Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument will specify any amounts payable under it which, when outstanding, will constitute Security Instrument Repayment Obligations and will specify the portions of any such amounts that are allocable as principal of and as interest on such Security Instrument Repayment Obligations.

"Senior Bonds" means the bonds from time to time issued under the Senior Indenture.

"Senior Indenture" means the General Indenture of Trust and Pledge dated as of June 1, 1995 (as amended and supplemented from time to time), between the NMFA and Bank of Albuquerque, N.A. as trustee.

"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.

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

"State" means the State of New Mexico.

"Subordinate Lien PPRF Revenues" means (i) the PPRF Revenues less the portion of the PPRF Revenues which are used during any applicable period to satisfy the obligations of the NMFA under the Senior Indenture (or required by the terms of the Senior Indenture to be retained by the Trustee under the Indenture) plus (ii) all revenues received or earned by the NMFA from or attributable to Additional Pledged Loans, if any.

"Subordinated Bond Anticipation Obligations" means Bond Anticipation Obligations, the Principal Installments on which have been subordinated pursuant to the Indenture.

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

"SWAP Counterparty" means a member of the International Swap and Derivatives Association, Inc. which is (i) rated in one of the three top rating categories by at least one of the Rating Agencies and (ii) meeting the requirements (including the rating requirements, if any) of applicable laws of the State. The documentation with respect to each Interest Rate Swap will require the SWAP Counterparty to (i) maintain its rating in one of the three top rating categories by at least one of the Rating Agencies (or to collateralize its obligations to the satisfaction of the Rating Agencies rating the related Bonds) and (ii) meet the requirements of State law (including the rating requirements, if any).

"SWAP Payments" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the SWAP Counterparty by the Trustee on behalf of the NMFA. SWAP Payments do not include any Termination Payments.

"SWAP Receipts" means as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Trustee for the account of the NMFA by the SWAP Counterparty. SWAP Receipts do not include amounts received with respect to the early termination or modification of an Interest Rate Swap.

"Taxable Bonds" means all Bonds designated in the related Supplemental Indenture as bearing or accruing interest intended to be subject to Federal income taxation.

"Tax-Exempt Bonds" means all Bonds other than the Taxable Bonds.

"Termination Payments" means the amount payable to the SWAP Counterparty by the Trustee on behalf of the NMFA with respect to the early termination or modification of an Interest Rate Swap. Termination Payments will be payable from and secured by Subordinate Lien PPRF Revenues after payment of amounts then due pursuant to the Indenture.

"Trust Estate" means the property held in trust by or pledged to 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.

"Uncommitted Proceeds" means that portion of the proceeds of a Series of Bonds for which no Loans have been made at the time of issuance of such Series of Bonds.

"Variable Rate Bonds" means, as of any date of calculation, Bonds the terms of which on such date of calculation are such that interest thereon for any future period of time is expressed to be calculated at a rate which is not susceptible to a precise determination.

The Bonds and PPRF Secured Obligations

Execution; Limited Obligation.

The Bonds will be executed on behalf of the NMFA with the manual or official facsimile signature of an Authorized Officer, countersigned with the manual or official facsimile signature of its Secretary and impressed or imprinted thereon the official seal or facsimile thereof of the NMFA. In case any officer, the facsimile of whose signature appears on the Bonds, ceases to be such officer before the delivery of such Bonds, such facsimile will nevertheless be valid and sufficient for all purposes, the same as if he or she had remained in office until delivery. The Bonds, together with interest thereon, will be limited obligations of the NMFA payable, on a parity with the PPRF Secured Obligations (as to the amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments solely from the Trust Estate.

The Bonds will be a valid claim of the respective Registered Owners thereof only against the Trust Estate and the NMFA pledges and assigns the same, FIRST, for the equal and ratable payment of the Bonds, the PPRF Secured Obligations (as to amounts deposited to the Revenue Fund), the Security Instrument Repayment Obligations and the SWAP Payments, and, SECOND, for the equal and ratable payment of the Reserve Instrument Repayment Obligations. The Trust Estate will be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, PPRF Secured Obligations as to the amounts deposited to the Revenue Fund, the Security Instrument Repayment Obligations, the SWAP Payments and the Reserve Instrument Repayment Obligations, except as may be otherwise expressly authorized in the Indenture (including the release of Subordinate Lien PPRF Revenues free and clear of the lien of the Indenture upon satisfaction of the payments then due and payable, as provided in the Indenture and the release of Loans, Additional Pledged Loans and Additional Pledged Revenues as provided in the Indenture.) The lien and pledge of the Subordinate Lien PPRF Revenues is subject to the prior lien of the Senior Indenture on the PPRF Revenues in that the PPRF Revenues will first be used to satisfy the requirements of the Senior Indenture and upon the release from the lien of the Senior Indenture the PPRF Revenues will immediately be subject to the lien of the Indenture. The Subordinate Lien PPRF Revenues (including the PPRF Revenues following the release thereof each year from the lien of the Senior Indenture) and the other amounts pledged under the Indenture are not subject to the lien of the Senior Indenture.

The Bonds, the Security Instrument Repayment Obligations and SWAP Payments are special limited obligations of the NMFA payable solely from the Trust Estate and will be a valid claim of the respective Owners thereof only against the Revenue Fund, the Bond Fund, the Debt Service Reserve Fund, the Debt Service Fund, the Agreement Reserve Fund (except as limited by the Indenture) and other moneys held by the Trustee under the Indenture (except the Rebate Fund), and the Bonds, the Security Instrument Repayment Obligations and SWAP Payments will not constitute or create a general obligation or other indebtedness of the State or (except as expressly provided in an Agreement or Securities) any Governmental Unit within the meaning of any constitutional or statutory debt limitation. The obligation of the NMFA under the Indenture with respect to the PPRF Secured Obligations is a special limited obligation of the NMFA payable solely from the amounts deposited or to be deposited to the Revenue Fund and will be a valid claim of the respective owners of and fiduciaries for the PPRF Secured Obligations only against the Revenue Fund, and the PPRF Secured Obligations will 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 obligation of the NMFA under the Indenture with respect to the Reserve Instrument Repayment Obligations is a special limited obligation of the NMFA payable solely from the Trust Estate after payment of the Bonds, PPRF Secured Obligations (as to the amounts deposited in the Revenue Fund), Security Instrument Repayment Obligations and SWAP Payments and will be a valid claim of the Reserve Instrument Providers against the Trust Estate and will not constitute or give rise to a general obligation or other indebtedness of the State, the NMFA or any other Governmental Unit within the meaning of any constitutional or statutory debt limitation.

No provision of the Bonds, the PPRF Secured Obligations, the Security Instrument Repayment Obligations, the SWAP Payments or Reserve Instrument Repayment Obligation, 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 obligation to pay the Principal of and interest and premium, if any, on the Bonds, the PPRF Secured Obligations, the Security Instrument Repayment Obligations, the SWAP Payments and the Reserve Instrument Repayment Obligations will 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.

The provisions of the Indenture relating to the execution of Bonds may be changed as they apply to the Bonds of any Series by the Supplemental Indenture authorizing such Series of Bonds.

Registration and Exchange of Bonds; Persons Treated as Owners.

Books for the registration and for the transfer of the Bonds as provided in the Indenture will be kept by the Trustee which is constituted and appointed by the Indenture as the Bond Registrar with respect to the Bonds, provided, however, that the NMFA may by Supplemental Indenture select a party other than the Trustee to act as Bond Registrar with respect to the Series of Bonds issued under said Supplemental Indenture. Upon the occurrence of an Event of Default, which would require any Security Instrument Issuer to make a payment under a Security Instrument Agreement, the Bond Registrar will make such registration books available to the Security Instrument Issuer. 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 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, 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 provided in the Indenture. 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.

In each case 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 is not presented for payment when the principal thereof becomes due at maturity, or otherwise, if funds sufficient to pay any such Bond has been 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 ceases, determines and is completely discharged, and it is 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 thereafter is 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. The obligation of the Trustee under the Indenture to pay any such amounts to the NMFA will be subject to any provisions of law applicable to the Trustee providing other requirements for disposition of unclaimed property.

PPRF Secured Obligations.

The NMFA may secure PPRF Secured Obligations pursuant to a Supplemental Indenture entered into with the Trustee pursuant to the terms of the Indenture. No bond or other obligations will be considered a PPRF Secured Obligation under the Indenture for any purpose or entitled to any security or benefit under the Indenture, unless specifically identified as such in a Supplemental Indenture. Each PPRF Secured Obligation will contain a provision substantially as follows:

> "This Bond is secured by the New Mexico Finance Authority (the "NMFA") as a PPRF Secured Obligation (as defined in the referenced Indenture) under the Subordinated General Indenture of Trust and Pledge (the "Indenture") between the NMFA and Bank of Albuquerque N.A. (the "Trustee"), as trustee dated as of March 1, 2005 and as provided in the _____________ Supplemental Indenture dated as of _________, _____ (the "Supplemental Indenture") and is entitled to the benefits and is subject to all of the terms and conditions of the Indenture and Supplemental Indenture (as the same may be amended or modified from time to time). The obligations of the NMFA under the Indenture are special limited obligations payable solely from and to the extent of the sources set forth in the Indenture."

Prior to the execution by the Trustee of a Supplemental Indenture relating to any PPRF Secured Obligation or Obligations, there will have been filed with the Trustee:

(a) a copy of the Indenture (to the extent not theretofore so filed) and the related Supplemental Indenture;

(b) a copy, certified by an Authorized Officer of the NMFA, of the proceedings of the NMFA approving the execution and delivery of the PPRF Secured Obligations and the related Supplemental Indenture, together with a certificate, dated as of the date of execution of such Supplemental Indenture, of an Authorized Officer of the NMFA that such proceedings are still in force and effect without amendments except as shown in such proceedings; and

(c) a certificate of the NMFA to the effect that the Legislature of the State has, to the extent required by law, approved each Project designated for financing under such Supplemental Indenture.

The paying agent for each PPRF Secured Obligation will use its best efforts to notify the Trustee, at least five business days prior to each Interest Payment Date or principal payment date for the PPRF Secured Obligations, if such paying agent has determined that it will not have sufficient moneys available for the payment of amounts due with respect to the PPRF Secured Obligations.

<u>Issuance of Additional Bonds and PPRF Secured Obligations and Additional Senior Bonds</u>.

(a) No additional indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of the Trust Estate for the payment of the Bonds, PPRF Secured Obligations, the Security Instrument Agreements and Interest Rate Swaps authorized in the Indenture, may be created or incurred without the prior written consent of 100% of the Owners of the Outstanding Bonds, owners of PPRF Secured Obligations and Security Instrument Issuers and SWAP Counterparties; provided however, that additional Senior Bonds or other indebtedness, bonds or notes of the NMFA payable on a priority senior to the pledge of PPRF Revenues under the Indenture may be issued in accordance with the requirements of the Senior Indenture.

(b) In addition, except for the Initial Bonds, no Additional Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments or other indebtedness, bonds or notes of the NMFA payable on a parity with the Bonds, the PPRF Secured Obligations, Securities Instrument Repayment Obligations and SWAP Payments authorized in the Indenture out of the Trust Estate may be issued, created or incurred, unless the following requirements have been met:

(i) the NMFA delivers to the Trustee a Cash Flow Statement taking into account the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes and taking into account the execution and delivery of any related Security Instrument Agreement and Interest Rate Swap;

(ii) all payments required by the Indenture to be made into the Bond Fund must have been made in full;

(iii) the proceeds of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes must be used (x) 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), (y) to make Loans or to purchase Securities (including the funding of necessary reserves and the payment of costs of issuance) or (z) to finance other projects approved by the NMFA; and

(iv) no Event of Default has occurred and is continuing under the Indenture. The foregoing provisions of this paragraph (iv) will not preclude the issuance of Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes if (x) the issuance of such Additional Bonds and PPRF Secured Obligations or other indebtedness, bonds or notes otherwise complies with the provisions of the Indenture and (y) such Event of Default will cease to continue upon the issuance of the Additional Bonds, PPRF Secured Obligations or other indebtedness, bonds or notes and the application of the proceeds thereof.

(c) There must be on deposit in each Account of the Debt Service Reserve Fund (taking into account any Reserve Instrument coverage) the full amount required to be accumulated therein at the time of issuance of the Additional Bonds.

The requirements above 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 and outstanding PPRF Secured Obligations being lowered.

Covenant Against Creating or Permitting Liens.

Except for (A) the pledge of the PPRF Revenues pursuant to the Senior Indenture and (B) the pledge of the Trust Estate to secure payment of the Bonds, PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments, and Reserve Instrument Repayment Obligations under the Indenture, 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, the PPRF Secured Obligations, Security Instrument Repayment Obligations and SWAP Payments and (ii) Subordinate Lien PPRF Revenues not needed for payments under the Indenture in any Bond Fund Year may be released to the NMFA free and clear of the lien of the Indenture as provided in the Indenture.

Open Market Purchases of Bonds

Purchases of Outstanding Bonds on the open market may be made by the NMFA at public or private sale as, when and at such prices as the NMFA may in its discretion determine. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Bond Fund for the payment of interest on such Bonds on the next following Interest Payment Date. Any Bonds so purchased will be cancelled by the Trustee and surrendered to the NMFA or destroyed and will not be reissued.

Covenants of the NMFA

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 will 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, PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations and the performance of the NMFA's obligations under the Indenture.

No Transfer of Loan Agreements, Additional Pledged Loans, Security Documents and Securities; Exceptions; Further Assurance. The NMFA and the Trustee will not transfer any of the Loan Agreements, Additional Pledged Loans, Security Documents and Securities, except as specifically authorized in the Indenture in furtherance of the security for the Bonds, PPRF Secured Obligations, the Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations; provided that, (i) once the Governmental Unit has repaid all amounts, if any, owing under its Loan 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 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 and in the Senior Indenture, the NMFA will not enter into any contract or take any action by which the rights of the Trustee or the Bond Owners, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 will cause a financing statement to be filed with the Secretary of State of the State, and in such other manner and at such places as may be required by law fully to protect the security interest of the Owners of the Bonds, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 are reasonably requested by the Trustee for the protection of the interests of the Bond Owners, the owners of PPRF Secured Obligations, Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers 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 upon the Trust Estate created by the Indenture until the principal of and interest on the Bonds, the PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations executed and delivered under the Indenture have 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 or any part thereof until the principal of and interest on the Bonds, the PPRF Secured Obligations, Security Instrument Repayment Obligations, SWAP Payments and Reserve Instrument Repayment Obligations have been paid.

Rights Under Loan Agreements, Security Documents and Securities. The Loan Agreements, Security Documents and Securities set forth the covenants and obligations of the Governmental Units, including provisions that, subsequent to the issuance of a related Series of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions in the Indenture, the Loan 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 under the Indenture.

Tax-Exempt Bonds. The NMFA covenants and agrees to and for the benefit of the Owners of the Tax-Exempt Bonds that the NMFA (i) will not take any action that would cause interest on the Tax-Exempt 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 Tax-Exempt Bonds in order to preserve the exemption from federal income taxation of interest on the Tax-Exempt Bonds.

State Pledge of Non-Impairment. The State has pledged to and agreed with the holders of the Bonds and the owners of PPRF Secured Obligations (as obligations 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 Bond holders and the owners of PPRF Secured Obligations or in any way impair the rights and remedies of those holders until the Bonds and the PPRF Secured Obligations 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.

Financing Loan Agreements and Securities

Restrictions. The following restrictions will apply to Loans made by the NMFA under the Indenture:

(a) The aggregate principal amount of each Loan Agreement and Security will be in whole multiples of Authorized Denomination.

(b) Each Governmental Unit will agree not to take or permit any action which would cause the respective Agreement or the related Series of Bonds to be "arbitrage bonds" under Sections 103 and 148 of the Code.

(c) Amounts disbursed from each Governmental Units' Account within the Program Fund will be used to finance the costs of the related Project and related expenditures on behalf of the Governmental

Unit. All funds on deposit in a Governmental Unit's Program Account may be disbursed to fund a capital projects account held by or on behalf of the Governmental Unit, provided that the Governmental Unit establishes an account for such moneys separate from its other funds, and expressly acknowledges and agrees that its use of such moneys is subject to the requirements and restrictions set forth in the Indenture.

(d) Each Governmental Unit agrees to pay the Rebatable Arbitrage relating to its Accounts in the Program Fund, the Agreement Reserve Fund and the Debt Service Fund.

(e) At the time of execution and delivery of each Agreement, the related Governmental Unit will execute and deliver a certificate to the effect that the Governmental Unit (i) will not take any action that would cause the 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 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 Agreement in order to preserve the exemption from federal income taxation of the interest on the Bonds.

The provisions of Subsections (b), (d) and (e) above will not apply to Agreements financed with proceeds of Taxable Bonds.

Waiver of Compliance With Program Requirements. With the Approval of Bond Counsel, any of the requirements of the Indenture may be waived or modified by the Trustee and the NMFA

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 on the related Loan (the "Interest Component") 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") with respect to the related Loan, all as set forth in the related Agreement. Amounts due as the Principal, Program Costs, and Interest Components of Loan Payments due under each Loan Agreement or Securities will be paid on or before each Loan Payment Date. The Interest Component of Loan Payments for each 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 or Pledge Notification. The Program Cost Component may be included in the interest rate applicable to a Loan.

(b) Agreement and Term. The "Term" of an Agreement will be defined in the Agreement.

(c) Agreement Payment. Agreements will provide that the related Governmental Unit will pay Loan Payments to the NMFA for remittance to Trustee. 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 the NMFA for remittance to and to be held by the Trustee.

(d) Prepayments. Agreements may contain a provision permitting the Governmental Unit to prepay the Principal Component of Loan Payments, in accordance with the provisions of the Agreement subject to any conditions set forth in the related Supplemental Indenture or Agreement. Partial prepayments of the Principal Component of Loan Payments will be made in multiples of the minimum Authorized Denomination.

(e) Use of Reserve at Final Payment. At the time of payment in full under 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 Agreement.

Establishment and Use of Funds

Establishment of Funds; Accounts Within Funds. There are established 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 or Project;

(b) a Debt Service Fund and within such fund a separate Account for each Agreement;

(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 (other than Agreements related to Taxable Bonds);

(g) a Subordinate Lien PPRF Revenue Fund (in the Indenture the "Revenue Fund") established as an account of the Public Project Revolving Fund;

(h) a Debt Service Reserve Fund and within such fund a separate Account for each Series of Bonds for which a Debt Service Reserve Requirement is established; and

(i) a Reserve Instrument Fund.

In addition to the foregoing, the NMFA may establish subaccounts within the Program Fund, the Agreement Reserve Fund, the Debt Service Reserve Fund, the Reserve Instrument Fund or the Debt Service Fund.

Program Fund. Except with respect to Reimbursement Bonds, proceeds of which may be deposited directly to the Public Project Revolving Fund, upon the issuance of a Series of Bonds, the Trustee will deposit the amount specified in the related Supplemental Indenture in the Program Fund and except in the case of Uncommitted Proceeds, will allocate such amount to the respective Accounts within the Program Fund as provided in each Agreement, Supplemental Indenture or Pledge Notification. Upon the issuance of a Series of Bonds for which there are Uncommitted Proceeds, the Trustee should deposit such Uncommitted Proceeds in the Program Fund until such time that the Trustee receives a Pledge Notification that identifies the Agreement or Project to which Uncommitted Proceeds are to be allocated and at such time, the Trustee will allocate such Uncommitted Proceeds to the respective Accounts within the Program Fund as provided in each Agreement, Supplemental Indenture or Pledge Notification. Disbursements from each Account within the Program Fund will be made as provided below and may be made in stages or in a single disbursement for the purpose of funding a Governmental Unit's capital projects account.

Application of Loan Payments. Pursuant to the Loan Agreements and Securities and except as otherwise provided in a Supplemental Indenture, the Loan Payments payable under the Indenture will be paid directly to the NMFA for remittance to the Trustee. Any moneys received by the Trustee directly from a Governmental Unit will be remitted to the NMFA for deposit in the NMFA debt service account or other appropriate account for the Governmental Unit or other borrower from which the Trustee received such moneys.

The Trustee will deposit all Loan Payments from the Loan Agreements and Securities immediately upon receipt thereof from the NMFA, 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 (it being anticipated that each Governmental

Unit will deposit an amount at least equal to the Loan Payments falling due under the related Loan Agreement or Securities with the NMFA, which will remit that amount to the Trustee for allocation to the related Account in the Debt Service Fund).

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.

Third: to the payment of Program Costs (to the extent allocable to such Agreement).

All income earned from the investment of moneys in the respective Accounts (i) held by the NMFA and (ii) 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 NMFA 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.

At least once each year, and more frequently if required pursuant to the provisions of a Supplemental Indenture, the Trustee will determine the amount necessary (i) to be transferred to the Bond Fund from each Debt Service Account 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, as provided in the Agreement and subject to the following:

(i) 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

(ii) Any other excess will be deposited into the Revenue Fund.

Debt Service Fund. When required pursuant to the provisions of a Supplemental Indenture, the Trustee will transfer moneys in the respective Accounts of the Debt Service Fund to the Bond Fund to pay principal of, and premium, if any, and interest on the Bonds, any Security Instrument Repayment Obligations, SWAP Payments (less any SWAP Receipts) and Reserve Instrument Repayment Obligations becoming due, to the extent amounts are on deposit therein for such purpose. When any Bond is called for redemption because a Governmental Unit has made a Prepayment under its Loan Agreement or Securities, the Trustee will, on the redemption date for such Bond, transfer the amount necessary for such redemption from the related Account in the Debt Service Fund to the Bond Fund.

The Trustee will keep the Debt Service Fund and each Governmental Unit's Account therein separate and apart from all other Funds and Accounts held by it.

In the event that a subaccount of a Governmental Unit’s Account within the Debt Service Fund is created for an Additional Pledged Loan, amounts representing principal of and interest on such Additional Pledged Loan will be deposited to the subaccount within the Debt Service Account and will be transferred on each payment date for such Additional Pledged Loan from the Debt Service Fund to the Revenue Fund. Amounts paid under an Additional Pledged Loan for replenishment of a related subaccount of the Agreement Reserve Fund will be deposited therein upon receipt.

Agreement Reserve Fund. The Trustee will deposit the amount, if any, set forth in a Supplemental Indenture or Pledge Notification to the Agreement Reserve Fund and from the source specified in such Supplemental Indenture or Pledge Notification and will allocate such amount to the respective Accounts as provided in each Agreement.

If the amounts on deposit in any Governmental Unit's Account of the Debt Service Fund are insufficient for payments coming due under the related Agreement on the next Loan Payment Date, 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), the Trustee will transfer to such Governmental Unit's Account in the Debt Service Fund from the related Agreement Reserve Account, an amount sufficient, together with amounts in the related Debt Service Account, to pay the Principal Component and the Interest Component due under such Agreement on such Loan Payment Date.

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 Account of the Debt Service Fund and credited against payments next coming due under the related Agreement.

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 Agreement.

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 instruments in lieu of a cash deposit to the Agreement Reserve Fund, as more fully described in the Supplemental Indenture and the Agreement.

The Trustee will keep the Agreement Reserve Fund and each Governmental Unit's Account therein separate and apart from all other Funds and Accounts held by it.

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 the related Account of the Debt Service Fund.

In the event that a subaccount of a Governmental Unit's Account within the Agreement Reserve Fund is created for an Additional Pledged Loan, such amounts will be used, in a manner similar to that described above, to secure payment of principal of and interest on such Additional Pledged Loan. In the event that amounts paid by the related Governmental Unit for the payment of principal of and interest on such Additional Pledged Loan are insufficient to make such payments on the fifth day preceding the payment date for such Additional Pledged Loan, amounts on deposit in the related subaccount of the Agreement Reserve Fund will be transferred to the subaccount within the Debt Service Fund and used toward payments on such Additional Pledged Loan on such payment date. Amounts paid under an Additional Pledged Loan for replenishment of the related subaccount of the Agreement Reserve Fund will be deposited therein upon receipt.

Bond 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 due. 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. There will also be deposited to the Bond Fund from the Debt Service Fund the amounts described in the Indenture and from the Revenue Fund the amounts described in the Indenture. 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.

The Trustee will pay out of the Bond Fund to the Security Instrument Issuers and to the SWAP Counterparties, if any, that have issued Security Instruments or Interest Rate Swaps, respectively, with respect to such Series of Bonds, an amount equal to any Security Instrument Repayment Obligations and SWAP Payments (net of SWAP Receipts) as the case may be, then due and payable to such Security Instrument Issuers or SWAP Counterparties, as applicable. Except as otherwise specified in a related Supplemental Indenture, all such Security Instrument Repayment Obligations and SWAP Payments will be paid on a parity with the payments to be made with respect to principal of and interest on the Bonds; provided that amounts paid under a Security Instrument will be applied only to pay the related Series of Bonds. If payment is so made on Pledged Bonds held for the benefit of the Security Instrument Issuer, a corresponding payment on the Security Instrument Repayment Obligation will be deemed to have been made (without requiring an additional payment by the NMFA) and the Trustee will keep its records accordingly

The NMFA authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay Debt Service on the Bonds and Security Instrument Repayment Obligations and to pay the SWAP Payments as the same become due and payable and to make said funds so withdrawn available to the Trustee and any Paying Agent for the purpose of paying said Debt Service. In the event that Debt Service on a Series of Bonds is due more frequently than Loan Payments and amounts on deposit in the Bond Fund are insufficient therefor, amounts on deposit in the Revenue Fund will be used to pay Debt Service on such Series of Bonds, and upon receipt of the Loan Payments, the Revenue Fund will be reimbursed for such payments, as directed by the NMFA. Amounts remaining on deposit in the Bond Fund at the end of the Bond Fund Year after the payment of amounts due, as described above for such Bond Fund Year, will be transferred to the Revenue Fund.

The Trustee will deposit to the Bond Fund all moneys transferred from the Debt Service Reserve Fund or from a Reserve Instrument or Instruments then in effect as provided in the Indenture.

Use of Debt Service Reserve Fund. Except as otherwise provided in the Indenture and subject to the immediately following sentence, moneys in each account in the Debt Service Reserve Fund will at all times be maintained in an amount not less than the applicable Debt Service Reserve Requirement, if any. In calculating the amount on deposit in each account in the Debt Service Reserve Fund, the amount of any Reserve Instrument Coverage will be treated as an amount on deposit in such account in the Debt Service Reserve Fund. Each Supplemental Indenture authorizing the issuance of a Series of Bonds will specify the Debt Service Reserve Requirement, if any, applicable to such Series, which amount will either be (i) deposited immediately upon the issuance and delivery of such Series from (a) proceeds from the sale thereof or from any other legally available source, or (b) by a Reserve Instrument or Instruments, or (c) any combination thereof, (ii) deposited from legally available moneys over the period of time specified therein, or (iii) deposited from any combination of (i) and (ii) above; provided however, the foregoing provisions will be subject to the requirements of any Security Instrument Issuer set forth in any Supplemental Indenture. If at any time the amount on deposit in any account of the Debt Service Reserve Fund is less than the minimum amount to be maintained therein under the Indenture, the NMFA is required, pursuant to the Indenture and the provisions of any Supplemental Indenture, to make payments totaling the amount of any such deficiency directly to the Trustee for deposit into the Debt Service Reserve Fund.

In the event of a deficiency in the Bond Fund for a Series of Bonds, the Trustee will transfer moneys on deposit in the related Account of the Debt Service Reserve Fund to the Bond Fund to make up such deficiency.

In the event funds on deposit in an account of the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund as aforementioned, and there is insufficient cash available in such account of the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such Series are in effect, the Trustee will immediately make a demand for payment on such Reserve Instruments, to the maximum extent authorized by such Reserve Instruments, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund. Thereafter, the NMFA will be obligated to reinstate the Reserve Instrument as provided in the Indenture.

No Reserve Instrument will be allowed to expire or terminate while the related Series of Bonds are Outstanding unless and until cash has been deposited into the related account of the Debt Service Reserve Fund, or a new Reserve Instrument has been issued in place of the expiring or terminating Reserve Instrument, or any combination thereof in an amount or to provide coverage, as the case may be, at least equal to the amount required to be maintained in the related account of the Debt Service Reserve Fund.

Moneys at any time on deposit in any Account of the Debt Service Reserve Fund in excess of the amount required to be maintained therein (taking into account the amount of related Reserve Instrument Coverage) will be transferred by the Trustee to the Bond Fund at least once each year.

Moneys on deposit in any Account of the Debt Service Reserve Fund will be used to make up any deficiencies in the Bond Fund only for the Series of Bonds secured by said account and any Reserve Instrument will only be drawn upon with respect to the Series of Bonds for which such Reserve Instrument was obtained.

The NMFA may, upon obtaining approving opinion of bond counsel to the effect that such transaction will not adversely affect the tax-exempt status of any outstanding Bonds, replace any amounts required to be on deposit in the Debt Service Reserve Fund with a Reserve Instrument.

Use of Reserve Instrument Fund. There will be paid into the Reserve Instrument Fund the amounts required by the Indenture and by a Supplemental Indenture to be so paid. The amounts in the Reserve Instrument Fund will, from time to time, be applied by the Trustee on behalf of the NMFA to pay the Reserve Instrument Repayment Obligations which are due and payable to any Reserve Instrument Provider under any applicable Reserve Instrument Agreement.

Use of Revenue Fund. Pursuant to the Senior Indenture, the PPRF Revenues which are not used to satisfy obligations of the NMFA under the Indenture or required by the terms thereof to be retained by the trustee under the Indenture, are to be released from the lien and pledge of the Senior Indenture on June 1 of each year (being the last day of each bond fund year under the Indenture) and the NMFA covenants and agrees that such amounts are and will be subject to the lien of the Indenture. During each Bond Fund Year, (i) all PPRF Revenues released from the lien of the Senior Indenture will be paid to the Trustee immediately upon the release thereof on June 1 of each year, (ii) all amounts received as Additional Pledged Revenues will be immediately deposited with the Trustee and (iii) all payments representing principal and interest from Additional Pledged Loans will be paid immediately upon receipt thereof by the NMFA to the Trustee, and all of the same will be accounted for and maintained by the Trustee in the Revenue Fund, which fund will be kept separate and apart from all other accounts of the Trustee and which, prior to transfer of any excess therefrom pursuant to the Indenture, will be expended and used by the Trustee only in the manner and order of priority specified below.

(a) (i) If the amounts on deposit in the Bond Fund are insufficient for payments of principal of and interest on the Bonds due on such date or if a deficiency has occurred in the Bond Fund that has not otherwise been rectified, the Trustee will immediately transfer from the Revenue Fund to the Bond Fund, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the principal of and interest on the Bonds due on such date and to rectify any such deficiency then still existing;

(ii) if the Trustee receives notice from the paying agent for any PPRF Secured Obligation that the amounts available for payment of principal and interest with respect to such PPRF Secured Obligation then due on such date will be insufficient or if a deficiency in the payment of any PPRF Secured Obligation has occurred that has not otherwise been rectified, the Trustee will immediately transfer from the Revenue Fund to such paying agent an amount sufficient, together with amounts otherwise available for such purpose, to pay the principal and interest then due with respect to the PPRF Secured Obligations on such date and to rectify any such deficiency then still existing; and

(iii) if the amounts on deposit in the Bond Fund are insufficient for payments then coming due on such date with respect to any Security Instrument Repayment Obligations or SWAP Payments (net of SWAP Receipts) then due pursuant to any Security Instrument Agreements or Interest Rate Swaps or if there has been a deficiency in the payment of any Security Instrument Repayment Obligations or SWAP Payments that has not been rectified, the Trustee will immediately transfer from the Revenue Fund to the Bond Fund, an amount sufficient, together with amounts transferred from the Debt Service Fund, to pay the amounts due on the Security Instrument Repayment Obligations and the SWAP Payments (net of SWAP Receipts) then due on such date and to rectify any such deficiency then still existing.

The transfers required by (i), (ii) and (iii) above are to be made on a parity basis. In the event that the amounts available for transfer pursuant to (i), (ii) and (iii) above are insufficient therefor the Trustee will make such transfers ratably according to the amounts due.

(b) Subject to making the transfers set forth in Subsection (a) above, the NMFA will make the following transfers to the Trustee:

(i) To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (A) to the Accounts in the Debt Service Reserve Fund any amounts required by the Indenture and by any Supplemental Indenture to accumulate therein the applicable Debt Service Reserve Requirement with respect to each Series of Bonds at the times and in the amounts provided in the Indenture and in any Supplemental Indenture and (B) if funds have been withdrawn from an Account in the Debt Service Reserve Fund or any Account in the Debt Service Reserve Fund is at any time funded in an amount less than the applicable Debt Service Reserve Requirement, the NMFA will transfer from the Revenue Fund in such Account(s) in the Debt Service Reserve Fund in an amount sufficient to restore such Account(s) within one year with twelve (12) substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Debt Service Reserve Requirement); or a ratable portion (based on the amount to be transferred pursuant to the Indenture) of remaining amounts if less than the amount necessary; and

(ii) Equally and ratably to the Accounts of the Reserve Instrument Fund, with respect to all Reserve Instruments which are in effect and are expected to continue in effect after the end of such month, such amount from the Revenue Fund, or a ratable portion (based on the amount to be transferred pursuant to the Indenture) of the amount so remaining if less than the amount necessary, that is required to be paid, on or before the next such transfer or deposit from the Revenue Fund into the Reserve Instrument Fund, to the Reserve Instrument Provider pursuant to any Reserve Instrument Agreement, other than Reserve Instrument Costs, in order to cause the Reserve Instrument Coverage to equal the Reserve Instrument Limit within one year from any draw date under the Reserve Instrument.

(c) In the event that funds are withdrawn from an Account in the Agreement Reserve Fund, or any Account in the Agreement Reserve Fund is at any time funded in an amount less than the applicable Agreement Reserve Requirement, the NMFA will transfer for deposit in such Account(s) in the Agreement Reserve Fund sufficient Subordinate Lien PPRF Revenues, Agreement Revenues, Additional Pledged Revenues and revenues from Additional Pledged Loans in amount to restore such Account(s) within one year with twelve (12) substantially equal payments during such period (unless otherwise provided for by the Supplemental Indenture governing the applicable Agreement Reserve Requirement); or a ratable portion of remaining Subordinate Lien PPRF Revenues, Agreement Revenues, Additional Pledged Revenues and revenues from Additional Pledged Revenues and revenues from Additional Pledged Loans if less than the amount necessary.

(d) Subject to making the foregoing transfers to the Bond Fund and to the paying agent for the PPRF Secured Obligations and to the Security Instrument Issuers and to the SWAP Providers and to the Reserve Instrument Providers, on June 16 of each year, the NMFA will be entitled to direct the Trustee in writing to release to the NMFA the balance on deposit in the Revenue Fund and the Trustee will transfer the such amount to the NMFA and the NMFA may use such balance for:

(i) deposit to the Public Project Revolving Fund as required by the Act;

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

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

(iv) for any other lawful purpose, including (A) payment of Program Costs for Bonds issued under the Indenture and similar costs for PPRF Secured Obligations, (B) replacement of reserves for Bonds issued under the Indenture or PPRF Secured Obligations, and (C) payment of Termination Payments;.

provided, however, that notwithstanding the foregoing there will be retained in the Revenue Fund an amount, after giving credit for available amounts in all accounts in the Debt Service Reserve Fund and the Agreement Reserve Fund, sufficient to make payments of all Debt Service requirements on all Bonds, all Security Instrument Repayment Obligations, all SWAP Payments and all Reserve Instrument Repayment Obligations coming due in the then current Bond Fund Year; provided further, that once additional moneys are amounts retained in the Revenue Fund may be released from the lien of the Indenture but only to the extent of additional moneys deposited into the Bond Fund. For purposes of calculating the Debt Service on Variable Rate Bonds for purposes of the Indenture, the provisions of clauses (1), (2) and (3) of the definition of "Debt Service" in the Indenture will apply.

(e) The NMFA may, but is not obligated to, use any PPRF Revenues of the NMFA to satisfy its obligations under the Indenture.

Subordinate Lien PPRF Revenues. Additional Pledged Revenues, Revenues from Additional Pledged Loans and Agreement Revenues to be Held for All Bond Owners and Owners of PPRF Secured Obligations. All of the Subordinate Lien PPRF Revenues, Additional Pledged Revenues, revenues from Additional Pledged Loans and the Agreement Revenues will, until applied as provided in the Indenture, be held by the Trustee or the NMFA, as applicable, only for the benefit of the Owners of Bonds, Owners of PPRF Secured Obligations (as to Subordinate Lien PPRF Revenues only), Security Instrument Issuers, SWAP Counterparties and Reserve Instrument Providers.

Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Trustee or the NMFA for account to any fund referred to in any provision of the Indenture will be held by the Trustee and the NMFA, as the case may be, in trust. Moneys held by the NMFA as servicer of the Agreements and the Additional Pledged Loans until paid to the Trustee will be kept separate and apart from all other accounts of the NMFA, who will hold and administer such moneys as agent for the Trustee and such moneys will at all times be subject to the lien and trust imposed by the Indenture.

Repayment to Governmental Units from Debt Service Fund. Any amounts remaining in any Governmental Unit's Debt Service Account or Agreement Reserve Account after payment in full of the principal of and premium, if any, and interest on the related Agreement, the fees, charges, and expenses of Trustee, all other amounts required to be paid under the Indenture will be paid immediately to the Governmental Unit as an overpayment of Loan Payments.

Trustee under the Indenture. The Trustee under the Indenture and the trustee under the Senior Indenture will at all times be one and the same entity.

Investment of Moneys

Any moneys held (i) as part of a Governmental Unit's Account in any of the Funds established by the Indenture or (ii) by the NMFA as agent for the Trustee, will be invested by the Trustee or the NMFA, as the case may be, in Permitted Investments in accordance with the Indenture. 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 Agreement when due.

Any moneys on deposit in the Revenue Fund, the Expense Fund, the Rebate Fund, the Debt Service Reserve 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 by Article VI of 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.

Neither the NMFA nor the Trustee will 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 and PPRF Secured Obligations, the principal of and premium, if any, and interest due or to become due on the Bonds and PPRF Secured Obligations 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 Indenture, and if the NMFA has paid or has caused to be paid to (i) all Security Instrument Issuers all Security Instrument Repayment Obligations due and payable under all Security Instruments, (ii) all SWAP Counterparties all SWAP Payments due and payable under all Interest Rate Swaps, and (iii) all Reserve Instrument Providers all Reserve Instrument Repayment Obligations due and payable under all Reserve Instrument Agreements, then the estate and rights granted by the Indenture will cease, terminate 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 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 will 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.

All moneys so deposited with the Trustee (or other escrow agent) as provided in the Indenture may at the direction of the NMFA also be invested and reinvested in noncallable Governmental Obligations, maturing in the amounts and at times as set forth in the Indenture, and all income from all noncallable Governmental Obligations in the hands of the Trustee pursuant to the Indenture which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys has 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.

Notwithstanding anything in the Indenture to the contrary, all moneys or noncallable Governmental Obligations set aside and held in trust pursuant to the 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 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 Indenture for the payment of Bonds and such Bonds have not in fact been actually paid in full, no amendment to the 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 Issuers 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 Issuers 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 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 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 under the Indenture or otherwise; or

(c) if the NMFA for any reason is 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 Trust Estate, 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 is not 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 enacted after the effective date of the

Indenture, if the claims of such creditors are or may be under any circumstances payable from the Trust Estate; 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 are 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 will not be 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 in the Indenture or any Supplemental Indenture thereto on the part of the NMFA to be performed, other than as set forth in the Indenture, 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 under the Indenture.

<u>Remedies of the Trustee</u>. 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, Additional Pledged Loans and Security Documents and the provisions of the Indenture for the benefit of the Owners of the Bonds and, as provided in the Indenture, the owners of the PPRF Secured Obligations 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 or Additional Pledged Loans (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 PPRF Secured Obligations, the Agreements, the Additional Pledged Revenues, the Additional Pledged Loans 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 Subordinate Lien PPRF Revenues, Additional Pledged Revenues, Agreement Revenues and revenues attributable to Additional Pledged Loans pledged under the Indenture or pursuant to the Agreements and any Security Documents; or

(f) terminate the provisions of the Indenture providing for NMFA collection, deposit and loan administration functions in connection with Loans and Additional Pledged Loans and cause such payments to be made directly to the Trustee.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners of the Bonds or PPRF Secured Obligations 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 of the Bonds or PPRF Secured Obligations 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 is 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 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 of the Bonds or PPRF Secured Obligations in the Indenture is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be 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 NMFA for Payments of Governmental Units. Other than in its capacity as servicer of Loans and Additional Pledged Loans, the NMFA will not have any obligation or liability to the Trustee or the Owners of the Bonds or PPRF Secured Obligations with respect to the payment when due of the Loan Payments by the Governmental Units, or with respect to the performance by the Governmental Units of the other agreements and covenants required to be performed by them contained in the Loan Agreements, Additional Pledged Loans and Securities, the related Security Documents, or in the Indenture, or with respect to the performance by the Trustee or any right or obligation required to be performed by them contained in the Indenture.

No Liability by the Governmental Units to the Owners. Except for the payment when due of the Loan Payments and Additional Pledged Loans and the performance of the other agreements and covenants required to be performed by it contained in the Agreements, Additional Pledged Loans and Security Documents, the Governmental Units will not have any obligation or liability to the Owners of Bonds and PPRF Secured Obligations 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, Additional Pledged Loans or Security Documents.

Limitation of Owners' Right to Bring Suit. No Owner of any Bond or PPRF Secured Obligations will have 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 under the Indenture, at law or in equity, unless;

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default (in the case of the Bonds) or of the payment default or other default pursuant to the Indenture (in the case of PPRF Secured Obligations);

(b) the Owners of Bonds and PPRF Secured Obligations of not less than a majority of the aggregate principal amount of the Bonds Outstanding and PPRF Secured Obligations then outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default (in the case of the Bonds) or of the payment default or other default pursuant to the Indenture (in the case of PPRF Secured Obligations) 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 of Bonds and PPRF Secured Obligations 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 and Owners of PPRF Secured Obligations. Notwithstanding the foregoing, the Owner of any Bond and the Owners of PPRF Secured Obligations has the right, which is absolute and unconditional, to receive payment of interest on such Bond or PPRF Secured Obligation when due in accordance with the terms thereof and of the Indenture and the principal of such Bond or PPRF Secured Obligation at the stated maturity thereof 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 and PPRF Secured Obligations outstanding have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, 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 or PPRF Secured Obligations.

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 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, and after giving effect to the parity claim of PPRF Secured Obligations to amounts on deposit in the Revenue Fund, 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, and after giving effect to the parity claim of PPRF Secured Obligations to amounts on deposit in the Revenue Fund, will be applied as follows:

(a) To the payment of the Principal of, premium, if any, and interest then due and payable on the bonds as follows:

(i) Unless the principal of all Bonds has become due and payable, all such moneys will be applied:

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 is not 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 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;

Third: To be held for the payment to the persons entitled thereto as the same becomes 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.

(ii) If the principal of all the Bonds has become due 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.

(b) To the payment of all obligations then due and payable to any Security Instrument Issuers under any applicable Security Instrument Agreement.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys will be applied at such times, and from time to time, as the Trustee determines, 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 will deem 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 is not 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 under the Indenture 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 have 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, the Security Instrument Issuers 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.

Defaults Relating to PPRF Secured Obligations.

A default with respect to the PPRF Secured Obligations is not (in and of itself) an Event of Default under the Indenture and the Owners of the PPRF Secured Obligations will be limited to their right to payment from Subordinate Lien PPRF Revenues and performance by the NMFA of its covenants and agreements under the Indenture on their behalf. In the event that NMFA fails to make payment on any PPRF Secured Obligation or defaults in the due and punctual performance of any other covenant, condition or provision of the Indenture relating thereto, the Trustee may and upon the written request of the Owners of a majority of the PPRF Secured Obligations (or any fiduciary therefore) and upon receipt of indemnity to its satisfaction, will in its own name exercise any of the rights and remedies provided in the Indenture to the extent applicable to the collection and application of Subordinate Lien PPRF Revenues.

The Owners of PPRF Secured Obligations will be secured by and entitled to a parity claim on all Subordinate Lien PPRF Revenues deposited to or required to be deposited to the Revenue Fund. In the exercise of remedies under the Indenture relating to the collection and application of Subordinate Lien PPRF Revenues, the Trustee will act for the benefit of the Owners of the PPRF Secured Obligations on the same basis as for Owners of Bonds.

The Trustee

Fees, Charges and Expenses of the Trustee. The Trustee will be entitled to payment and reimbursement for reasonable fees for its services rendered under the Indenture and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. The Trustee will be entitled to payment and reimbursement for the reasonable fees and charges of the Trustee as Paying Agent and Registrar for the Bonds as provided in the Indenture. 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 foregoing advances, fees, costs and expenses incurred.

Notice to Owners if Event of Default Occurs. Except as otherwise required by the Indenture, the Trustee will give to the Owners of Bonds and PPRF Secured Obligations notice of each default under the Indenture known to the Trustee within ninety days after the occurrence thereof, unless such default has been remedied or cured before the giving of such notice; provided that, except in the case of default in the payment of principal of or premium, if any, or interest on any of the Bonds or PPRF Secured Obligations, the Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Owners. Each such notice of default will be given by the Trustee by mailing written notice thereof to all holders of Bonds and PPRF Secured Obligations then outstanding whose names appear on the list of Owners as provided in the Indenture and, if required by the Trustee, such Owners have offered the Security or indemnity required by the Indenture.

Intervention by the Trustee. In any judicial proceeding to which the NMFA or a Governmental Unit is a party and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interest of Owners of the Bonds, the Trustee may intervene on behalf of Owners and will do so if requested in writing by the Owners of a majority in the aggregate principal amount of Bonds then outstanding and, if required by the Trustee, such Owners have offered the Security or indemnity required by the Indenture.

Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, will be and become successor to the Trustee under the Indenture and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding.

Resignation by the Trustee. The Trustee and any successor to the Trustee may at any time resign from the trusts created in the Indenture by giving thirty days' written notice by registered or certified mail to the NMFA and to the owner of each Bond as shown by the list of Owners required by the Indenture to be kept by the Trustee, and such resignation will take effect only upon the appointment of a successor Trustee by the Owners or by the NMFA.

Removal of the Trustee. The Trustee may be removed at any time, by the NMFA (except during the continuance of an Event of Default) by written notice signed by the NMFA or by an instrument or concurrent instruments in writing delivered to the Trustee and to the NMFA and signed by the Owners of a majority in aggregate principal amount of Bonds then outstanding. Any removal will take effect upon the appointment of a successor Trustee.

Appointment of Successor Trustee. In case the Trustee under the Indenture resigns or is removed, or is dissolved, or is in course of dissolution or liquidation, or otherwise become incapable of acting under the Indenture, or in case it is taken under the control of any public officer or officers, or of a receiver appointed by a court, the NMFA covenants and agrees to appoint a successor Trustee. If in a proper case no appointment of a successor Trustee is made by the NMFA pursuant to the Indenture within 45 days after the Trustee gives NMFA written notice of resignation or after a vacancy in the office of the Trustee has occurred by reason of its inability to act or its removal, the Trustee, or any Bondholder may apply to any court of competent jurisdiction to appoint a successor to itself as Trustee. Said court, after such notice, if any, as such court may deem proper, thereupon may appoint a successor Trustee. Every such Trustee appointed pursuant to the Indenture will be a trust company or bank in good standing having a reported capital and surplus of not less than $50,000,000 if there be such an institution willing, qualified and able to accept the trust upon customary terms.

Concerning Any Successor Trustee. Every successor Trustee appointed under the Indenture will execute, acknowledge and deliver to its predecessor and also to the NMFA an instrument in writing accepting such appointment under the Indenture, and thereupon such successor, without any further act, deed or conveyance, will become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor will, nevertheless, on the written request of the NMFA, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor under the Indenture; and every predecessor Trustee will deliver all securities and moneys held by it as Trustee under the Indenture to its successor. Should any instrument in writing from the NMFA be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties vested by the Indenture or intended to be vested in the predecessor, any and all such instruments in writing will, on request, be executed, acknowledged and delivered by the NMFA. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Indenture, together with all other instruments provided for in the Indenture, will be filed or recorded by the successor Trustee in each recording office where the Indenture has been filed or recorded.

Supplemental Indentures, Amendments to Agreements, Amendments and Supplements to Senior Indenture

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 the Initial Obligations or Additional Bonds and PPRF Secured Obligations in accordance with 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 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 the Rating Agencies that such amendments will not result in the rating on the Bonds and PPRF Secured or any Governmental Unit or to grant additional powers or rights to the Trustee;

(h) To add additional covenants of the NMFA or any Governmental Unit or to surrender any right or power conferred in the Indenture upon the NMFA 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 Indenture and subject to the terms and provisions contained in the Indenture, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds and PPRF Secured Obligations then outstanding 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 is 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 the Indenture permits, or is construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Bond issued under the Indenture, 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 or PPRF Secured Obligations over any other Bond or Bonds or PPRF Secured Obligations, or (iv) a reduction in the aggregate principal amount of the Bonds or PPRF Secured Obligations 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 and PPRF Secured Obligations 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.

Amendment of Agreements and Security Documents. The NMFA has the right to amend an Agreement, Additional Pledged Loan documents 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 in the Indenture 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 and PPRF Secured Obligations following such amendment being lower than the rating on the Bonds and PPRF Secured Obligations 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 owners of any PPRF Secured Obligations; or

(iv) to make any other change or amendment upon delivery to the Trustee of a Cash Flow Statement and an Approval of Bond Counsel.

If the NMFA or a Governmental Unit proposes 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.

Amendments and Supplements to Senior Indenture. The NMFA will be permitted to amend and supplement the provisions of the Senior Indenture as provided therein including amendments and supplements permitting the issuance of additional Senior Bonds under the Indenture, provided that without the prior written consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture and the owners of PPRF Secured Obligations, the NMFA and the Trustee will not amend or supplement the Senior Indenture to change the time for release of the PPRF Revenues from the lien of the Senor Indenture or to preclude such release as contemplated under the Indenture.

Miscellaneous

Consents, etc. of Owners. Any consent, request, direction, approval, objection or other instrument required by the Indenture to be signed and executed by the Owners may be in any number of concurrent documents and may be executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, will be sufficient for any of the purposes of the Indenture, and will be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by an affidavit of any witness to such execution.

(b) The fact of ownership of Bonds and the amount or amounts, numbers and other identification of such Bonds, and the date of holding the same, will be proved by the registration books of the Trustee maintained by the Trustee pursuant to the Indenture.

(c) The fact of ownership of PPRF Secured Obligations and the amount or amounts, numbers and other identification of such PPRF Secured Obligations, and the date of holding the same, will be proved by the registration books of the registrar for such obligations or otherwise as the NMFA may determine.

For all purposes of the Indenture and of the proceedings for the enforcement thereof, such person will be deemed to continue to be the Owner of such Bond or owner of PPRF Secured Obligations until the Trustee receives notice in writing to the contrary.

Limitation of Rights. With the exception of any rights expressly conferred in the Indenture, nothing expressed or mentioned in or to be implied from the Indenture or the Bonds or PPRF Secured Obligations is intended or is to be construed to give to any person or company other than the parties thereto, the Governmental Units and the Owners of the Bonds or owners of any PPRF Secured Obligations, any legal or equitable right, remedy or claim under or with respect to the Indenture or any covenants, conditions and provisions therein contained; the Indenture and all of the covenants, conditions and provisions thereof being intended to be and being for the sole and exclusive benefit of the parties thereto, the Governmental Units and the holders of the Bonds and PPRF Secured Obligations as provided in the Indenture.

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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 2005F 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 fourth quarter of 2004.

State of New Mexico
Employment by Industry Group*
Fourth Quarter 2004

Industry	Employment
Agriculture, Forestry, Fishing & Hunting	13,181
Mining	15,677
Utilities	5,621
Construction	55,361
Manufacturing	36,204
Wholesale Trade	22,211
Retail Trade	96,172
Transportation and Warehousing	23,997
Information	16,067
Finance & Insurance	23,227
Real Estate & Rental & Leasing	11,282
Professional & Technical Services	43,293
Management of Companies & Enterprises	5,027
Administrative & Waste Services	46,162
Educational Services	80,973
Health Care & Social Assistance	104,786
Arts, Entertainment & Recreation	17,844
Accommodation & Food Services	75,938
Other Services, Except Public Administration	21,405
Public Administration	57,223
Unclassified	399

* 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
2003-04*
(Thousands of Dollars)

	New Mexico		United States	
	2003	2004	2003	2004
Farm Total	$ 178,634	$ 173,342	$ 17,045,000	$ 19,726,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	$ 76,922	$ 80,573	$ 16,654,000	$ 17,215,000
Mining	695,767	774,544	31,311,000	34,837,000
Utilities	217,874	225,491	39,274,000	41,025,000
Construction	1,501,077	1,639,268	275,535,000	292,577,000
Manufacturing	1,447,672	1,465,932	688,421,000	687,644,000
Wholesale Trade	858,825	898,725	288,603,000	305,868,000
Retail Trade	2,032,054	2,152,467	367,133,000	380,286,000
Transportation & Warehousing	664,831	729,316	163,463,000	172,029,000
Information	524,815	518,862	184,654,000	190,841,000
Finance & Insurance	917,658	942,916	389,669,000	422,077,000
Real Estate & Rental & Leasing	270,228	296,583	74,777,000	80,733,000
Professional & Technical Services	2,329,019	2,451,921	423,145,000	449,735,000
Management of Companies & Enterprises	218,318	237,930	121,943,000	136,148,000
Administrative & Waste Services	1,047,278	1,122,089	198,222,000	214,780,000
Educational Services	207,985	221,636	79,888,000	84,757,000
Health Care & Social Assistance	2,541,412	2,741,753	500,197,000	532,184,000
Arts, Entertainment & Recreation	144,283	149,705	53,983,000	56,346,000
Accommodation & Food Services	935,453	982,741	159,358,000	169,264,000
Other Services, Except Public Administration	741,506	780,346	162,333,000	169,503,000
Non Farm Government				
Government & Government Enterprises	$ 7,486,835	$ 7,911,343	$ 890,081,000	$ 926,184,000
Non Farm Total	$24,859,812	$26,323,841	$5,088,644,000	$5,364,033,000
TOTAL	$25,038,446	$26,497,183	$5,105,689,000	$5,383,759,000

* Revised state personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available state-level source data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2005.

State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1995-2004

Year	Civilian Labor Force (000s) N.M.	Civilian Labor Force (000s) U.S.	Number Employed (000s) N.M.	Number Employed (000s) U.S.	Unemployment Rate N.M.(1)	Unemployment Rate U.S.(1)	Unemployment Rate 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)

Year	Per Capita Income New Mexico	Per Capita Income U.S.	Per Capita Income NM as % of U.S.(2)	Annual % Change New Mexico(3)	Annual % Change 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	24,247	30,814	79	0.7	0.8
2003	25,903	31,487	82	6.8	2.2
2004	26,154	33,041	79	1.0	4.9

(1) Revised state personal income estimates for 2001-04 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.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 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]

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 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F

We have acted as bond counsel in connection with the issuance by the New Mexico Finance Authority (the "NMFA") of its Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F in the aggregate principal amount of $21,950,000 (the "Series 2005F Bonds"). The Series 2005F 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 2005F 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 2005F Bonds are authorized to be issued under and secured by a Subordinated General Indenture of Trust and Pledge dated March 1, 2005 (the "General Indenture"), as amended and supplemented by a Third Supplemental Indenture of Trust dated as of October 1, 2005 (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 2005F 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 2005F 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 2005F 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 2005F 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 2005F Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2005F Bonds or any other offering material relating to the Series 2005F 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 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F

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 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F in the aggregate principal amount of $21,950,000 (the "Series 2005F Bonds"). The Series 2005F Bonds are being issued for the purpose of providing funds to (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) 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 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 2005F Bonds. The NMFA and each Governmental Unit whose loans are being financed or refinanced with proceeds of the Series 2005F 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 2005F Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005F 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 2005F 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 2005F 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 2005F 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 2005F Bonds; and

(b) although we have rendered an opinion that interest on the Series 2005F 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 2005F 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 2005F 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 2005F Bonds. The Series 2005F 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 2005F Bond certificate will be issued for each maturity of the Series 2005F 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 2005F Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005F Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005F 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 2005F 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 2005F Bonds, except in the event that use of the book-entry system for the Series 2005F Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005F 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 2005F 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 2005F Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005F 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 2005F 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 2005F 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 2005F 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 2005F 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 depository with respect to the Series 2005F 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 2005F Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2005F 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 2005F 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, a second series of the bonds in an aggregate principal amount of $10,000,000 on September 22, 2004, and a third series in an aggregate principal amount of $23,630,000 on August 30, 2005.

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 issue its Cigarette Tax Revenue Bonds (Department of Health Projects), Series 2006A in January 2006 in an amount not to exceed $11,000,000.

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 are payable from amounts in the 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 $67,250,700 in capitalization grants from the U.S. Environmental Protection Agency through September 30, 2005, and has provided a total State match of $15,107,240 As of June 30, 2005, the NMFA funded 20 loans totaling approximately $32,667,927. The DWRLF has binding commitments to fund four additional loans totaling approximately $20,585,000.

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 September 30, 2005, the NMFA had made 136 grants totaling $50,589,164 and had approved an additional 23 projects, totaling $9,054,838. 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 September 30, 2005, the NMFA had made 34 grants totaling $737,900. Additionally, as of September 30, 2005, the NMFA had approved an additional 14 projects totaling $304,700.

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

Revenues from the Loans secure all of the Bonds (including but not limited to the Series 2005F Bonds). The Governmental Units and the outstanding or expected principal balances of their respective Loans are listed in the following table.

Governmental Unit	Outstanding Loan Principal Balance
NMFA (Series 2005-1 Metro Court Bonds)	$50,395,000
NMFA (Series 2005-2 Metro Court Bonds)	6,115,000
NMFA(2005 Subordinate Lien Cigarette Tax Bonds)	23,630,000
Albuquerque Bernalillo County Water Utility Authority	20,000,000
Dexter Consolidated Schools	500,000
Truth or Consequences Municipal Schools	1,750,000
Torrance County Dist. 5 Fire Department	544,537
San Miguel County	1,763,889
Hatch Valley	465,000
Hagerman Municipal School District	400,000

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APPENDIX H

SPECIMEN BOND INSURANCE POLICY

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

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