NEW ISSUE – BOOK-ENTRY ONLY

DAC Bond®

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

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2007A 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 2007A Bonds. See "TAX MATTERS."

$34,010,000
NEW MEXICO FINANCE AUTHORITY
Subordinate Lien Public Project Revolving Fund
Revenue Bonds
Series 2007A

Dated: February 15, 2007 **Due:** June 15, as shown on inside cover

The New Mexico Finance Authority Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2007A (the "Series 2007A 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 2007A 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 2007A Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2007A Bonds will be made in book-entry form only, and beneficial owners of the Series 2007A 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 2007A Bonds.

The Series 2007A Bonds will be issued under and secured by a Subordinated General Indenture of Trust and Pledge (the "General Indenture"), dated as of March 1, 2005, as previously supplemented, and as supplemented by a Sixth Supplemental Indenture of Trust (the "Sixth Supplemental Indenture," and together with the General Indenture, as supplemented by all previous supplemental indentures, the "Indenture"), dated as of January 1, 2007, each between the New Mexico Finance Authority (the "NMFA") and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as trustee. Interest on the Series 2007A Bonds accrues from February 15, 2007 and is payable on June 15 and December 15 of each year, commencing June 15, 2007. Principal of the Series 2007A 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 2007A Bonds are subject to redemption prior to maturity.

Proceeds of the Series 2007A Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to or purchase securities from certain governmental entities ("Governmental Units") that will be or were used to finance certain Projects for such Governmental Units ("Loans"); (ii) purchasing a debt service reserve fund surety bond for deposit into the Debt Service Reserve Account established for the Series 2007A Bonds; (iii) paying accrued interest; and (iv) paying costs incurred in connection with the issuance of the Series 2007A Bonds. The principal of and premium, if any, and interest on the Series 2007A 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 2007A 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 2007A Bonds.

The Series 2007A 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 2007A 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 2007A Bonds will be construed or interpreted 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 2007A Bonds do not constitute or give rise to personal liability on the part of the members, directors or officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Simultaneously with the delivery of the Series 2007A Bonds, a financial guaranty insurance policy will be issued by MBIA Insurance Corporation insuring the payment of principal and interest on the Series 2007A Bonds when due. See "BOND INSURANCE" herein.

MBIA

Certain legal matters concerning the legality of the Series 2007A 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 2007A 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 Brownstein Hyatt Farber Schreck, P.C., 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 2007A Bonds. It is expected that a single certificate for each maturity of the Series 2007A Bonds will be delivered to DTC or its agent on or about February 27, 2007. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2007A Bonds.

Ramirez & Co., Inc.

Piper Jaffray & Co. **Cabrera Capital Markets, Inc.**

Dated: January 18, 2007

Maturity Schedule

$34,010,000
New Mexico Finance Authority
Subordinate Lien Public Project Revolving Fund Revenue Bonds
Series 2007A

Year (June 15)	Principal Amount	Interest Rate	Yield	CUSIP Number
2007	$315,000	4.00%	3.56%	64711M3V7
2008	1,400,000	4.00%	3.60%	64711M3W5
2009	1,855,000	4.00%	3.68%	64711M3X3
2010	2,510,000	4.00%	3.71%	64711M3Y1
2011	2,285,000	4.00%	3.74%	64711M3Z8
2012	2,375,000	4.00%	3.75%	64711M4A2
2013	2,470,000	5.00%	3.79%	64711M4B0
2014	2,540,000	5.00%	3.82%	64711M4C8
2015	2,580,000	5.00%	3.87%	64711M4D6
2016	2,565,000	5.00%	3.91%	64711M4E4
2017	2,775,000	5.00%	3.98%*	64711M4F1
2018	2,720,000	5.00%	4.03%*	64711M4G9
2019	1,415,000	5.00%	4.07%*	64711M4H7
2020	1,490,000	5.00%	4.10%*	64711M4J3
2021	1,425,000	5.00%	4.13%*	64711M4K0

$1,830,000 Series 2007A Term Bond due June 15, 2024 bearing interest at 5.000%, price 106.179%*, CUSIP Number 64711M4L8

$1,460,000 Series 2007A Term Bond due June 15, 2027 bearing interest at 4.250%, price 97.469%, CUSIP Number 64711M4M6

(plus accrued interest from February 15, 2007)

*Reflects yield to first optional redemption date on June 15, 2016.

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the Series 2007A 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 furnished by the NMFA, or obtained from other sources which are believed by the NMFA to be reliable. The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, any Governmental Unit or others since the date of this Official Statement.

THE PRICES AT WHICH THE SERIES 2007A 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 2007A BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007A 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 2007A Bonds have not been registered under the Securities Act of 1933, as amended, 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 2007A Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2007A 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 2007A Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement contains statements relating to the NMFA's 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.

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

*Serving as Interim Executive Director of the New Mexico Association of Counties.

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OFFICIAL STATEMENT

$34,010,000
NEW MEXICO FINANCE AUTHORITY
Subordinate Lien Public Project Revolving Fund
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Series 2007A

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 2007A (the "Series 2007A Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2007A 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 Sixth Supplemental Indenture of Trust, dated as of January 1, 2007, 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 2007A Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State of New Mexico (the "State") in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations and to provide assistance and advice on the NMFA's Public Project Revolving Fund Program. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY," the NMFA's financial statements for the fiscal year ended June 30, 2005 included as Appendix A-1, and the NMFA's Unaudited Combined Balance Sheet as of June 30, 2006 and the NMFA's Unaudited Combined Statement of Revenues and Expenditures for the Fiscal Year Ended June 30, 2006 included as Appendix A-2.

Purposes of the Series 2007A Bonds

Proceeds from the sale of the Series 2007A Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities ("Governmental Units") that will be or were used to finance certain Projects for such Governmental Units (collectively, the "Loans"); (ii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007A Bonds; (iii) paying accrued interest; and (iv) paying costs incurred in connection with the issuance of the Series 2007A Bonds. See "THE PLAN OF FINANCING." See also Appendix G for a list of the Governmental Units and the outstanding balances of the loans financed with the 2007A Bonds and information relating to the Governmental Units with the largest repayment obligations.

Parity Obligations

Bonds and other obligations with a lien on the Trust Estate in parity with the lien of the Series 2007A 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 2007A 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 2007A Bonds

Payments

The Series 2007A Bonds will be dated February 15, 2007. Interest on the Series 2007A Bonds accrues from February 15, 2007 and is payable on June 15 and December 15 of each year, commencing June 15, 2007. The Series 2007A 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 2007A Bonds are issuable in denominations of $5,000 or integral multiples of $5,000.

Book-Entry System

Individual purchases will be made in book-entry only form, and purchasers of the Series 2007A 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 2007A 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 2007A Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the Series 2007A 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 2007A 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 2007A Bonds are subject to redemption prior to maturity. See "THE SERIES 2007A BONDS – Redemption."

Security and Sources of Payment for the Bonds

Special Limited Obligations

The Bonds, including the Series 2007A 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:

1) moneys from the repayment by governmental borrowers of loans made or securities issued to finance a project under the Indenture ("Agreements");

2) 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;

3) 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");

4) 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

5) 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 paragraphs 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 paragraph above 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 paragraph above 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 2007A 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 2007A 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."

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 and obligations 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 are 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."

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 2007A 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 2007A 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 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 the NMFA of the Additional Senior Pledged Loans deposited to the revenue fund created under the Senior Indenture (the "PPRF Revenues"), prior to their release from the Senior Indenture, senior to the lien of the 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."

Bond Insurance

Simultaneously with the delivery of the Series 2007A Bonds, a financial guaranty insurance policy (the "Bond Insurance Policy") will be issued by MBIA Insurance Corporation (the "Bond Insurer") insuring the payment of principal of and interest on the Series 2007A Bonds when due. See "BOND INSURANCE."

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2007A Bond Owners that, so long as the Series 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bonds, see "TAX MATTERS."

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2007A Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in the form included in Appendix D and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under "TAX MATTERS" and in the form included in Appendix D. Lewis and Roca LLP, Albuquerque, New Mexico, counsel for the Underwriters, Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, and Brownstein Hyatt Farber Schreck, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, will deliver their respective opinions regarding certain legal matters, and the Office of the Attorney General of the State will deliver a no-litigation certificate. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2007A Bonds. See "FINANCIAL ADVISOR."

The NMFA's financial statements for the fiscal year ended June 30, 2005, included in Appendix A-1, have been audited by Meyners & Company, Certified Public Accountants, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS."

Offering and Delivery of the Series 2007A Bonds

The Series 2007A 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 2007A Bonds will be delivered to DTC or its agent on or about February 27, 2007. The Series 2007A Bonds will be distributed in the initial offering by Ramirez & Co., Inc., Piper Jaffray & Co. and Cabrera Capital Markets, Inc., (the "Underwriters"), for which Ramirez & Co., Inc. is acting as managing underwriter and representative of the Underwriters (in that role, the "Representative").

Other Information

This Official Statement speaks only as of its date, and the information in it is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents in this Official Statement do not purport to be complete, and reference is made to those laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Financial Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and any purchaser or holder of Series 2007A Bonds.

THE SERIES 2007A BONDS

Generally

The Series 2007A Bonds are being issued pursuant to the Act, the Indenture, and a resolution adopted by the NMFA. The Series 2007A Bonds are being issued for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities ("Governmental Units") that will be or were used to finance certain Projects for such Governmental Units (collectively, the "Loans"); (ii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007A Bonds; (iii) paying accrued interest; and (iv) paying costs incurred in connection with the issuance of the Series 2007A 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 General Indenture and a form of the Sixth Supplemental Indenture are available as described under "ADDITIONAL INFORMATION."

Description of the Series 2007A Bonds

The Series 2007A Bonds will be dated as of February 15, 2007. Interest will accrue on the Series 2007A Bonds from February 15, 2007 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, 2007. The Series 2007A 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 2007A 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 2007A 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 2007A Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2007A Bonds will be made in book-entry only form, and beneficial owners of the Series 2007A 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 2007A Bonds. For a more complete description of the book-entry only system, see Appendix E – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Generally

The Series 2007A Bonds are subject to optional redemption and mandatory sinking fund redemption as described below.

Optional Redemption by the NMFA

The Series 2007A Bonds maturing on or after June 15, 2017 are subject to optional redemption at any time on and after June 15, 2016, in whole or in part, in such order of maturity as may be selected by the NMFA and by lot within each maturity (if in part, in integral multiples of $5,000), at the option of the NMFA, upon notice as provided in the General Indenture and at the redemption price of 100% of the principal amount of the Series 2007A Bonds to be redeemed, plus interest accrued to the redemption date.

Mandatory Sinking Fund Redemption

The Series 2007A Bonds maturing on June 15, 2024 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount thereof 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
2022	$585,000
2023	605,000
2024*	640,000

*Final Maturity

If any of the Series 2007A Bonds maturing on June 15, 2024 then outstanding are optionally redeemed, an amount equal to the principal amount so redeemed shall be credited toward a part or all of any one or more of any mandatory sinking fund payments for the Series 2007A Bonds maturing on June 15, 2024, in such order as may be directed by the NMFA.

The Series 2007A Bonds maturing on June 15, 2027 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount thereof 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
2025	$670,000
2026	700,000
2027*	90,000

*Final Maturity

If any of the Series 2007A Bonds maturing on June 15, 2027 then outstanding are optionally redeemed, an amount equal to the principal amount so redeemed shall be credited toward a part or all of any one or more of any mandatory sinking fund payments for the Series 2007A Bonds maturing on June 15, 2027, 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 2007A Bonds, are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2007A 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. No provision of the Series 2007A Bonds will be construed or interpreted 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 principal of and interest and premium, if any, on the Series 2007A 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. For agreement reserves associated with loans reimbursed with proceeds of the Series 2007A Bonds, see Appendix G.

Agreements with Governmental Units. Each Governmental Unit that has entered into a Loan Agreement or has issued Securities has pledged specific Agreement Revenues to the repayment of its Loan. See Appendix G for a list of the Governmental Units and the allocable portions of the Loans financed with the Series 2007A Bonds.

The following table lists the ten Agreements that, based on scheduled payments in fiscal year 2006-07 and assuming no prepayments of the Agreements, are expected to generate the largest Agreement Revenues in fiscal year 2006-07. These ten Agreements comprise 89.25% of projected Agreement Revenues for fiscal year 2006-07.

Agreements Expected to Generate Agreement Revenues[(1)]

Obligor/Issuer	FY 2006-07 Loan Payment[(2)]	% of Projected FY 2006-07 Agreement Revenues	Final Maturity
NMFA (Metro Court Bonds)	$4,479,561	25.21%	6/15/2025
Farmington Municipal Schools[(3)]	3,093,362	17.41%	9/1/2007
City of Santa Fe – Civic Center	2,575,559	14.49%	6/1/2035
NMFA (2005 Subordinate Lien Cigarette Tax Bonds)	1,161,663	6.54%	6/15/2025
Jicarilla Apache Utility Authority	1,145,929	6.45%	5/1/2026
Truth or Consequences Municipal Schools	768,366	4.32%	8/1/2018
Albuquerque Bernalillo County Water Utility Authority	743,418	4.18%	5/1/2025
Santo Domingo Pueblo[(3)]	733,566	4.13%	5/1/2018
City of Las Cruces	583,545	3.28%	6/1/2021
City of Rio Rancho SAD #6[(3)]	576,404	3.24%	8/1/2018
	$15,861,373	89.25%	

(1) Based on scheduled fiscal year 2006-07 debt service and assumes no prepayment or redemption.
(2) Constitutes Agreement Revenues.
(3) Such Agreement constitutes an Additional Pledged Loan. See "Flow of Funds" below under this caption.

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.

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 (the "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 moneys released from the Senior Indenture on June 1 of each Bond Fund Year 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 are specifically pledged to the Subordinate Lien Indenture) 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). The NMFA has not, and currently has no plans to, enter into interest rate SWAP agreements in connection with the Indenture. For a more complete description of 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 2005-06, the amounts released to the NMFA from the Senior Indenture, which represent the amounts that would be included as Historic Subordinate Lien PPRF Revenues under the Indenture.

Historic Subordinate Lien PPRF Revenues
Fiscal Years 2000-01 Through 2005-06
(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	Fiscal Year 2005-06
$16,565,126	$21,694,363	$18,138,693	$18,185,919	$37,894,840[(1)]	$25,324,966

(1) 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 2007A 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; or (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 agreements, 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).

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 remaining 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 funds 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 which 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. At this point, the NMFA has not entered into any counterparty transactions with respect to the PPRF.

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. Neither the outstanding Bonds nor the Series 2007A Bonds are subject to mandatory redemption under such circumstances. With respect to the Series 2007A Bonds, the Indenture instead provides that, for the purpose of matching, to the extent practicable, (i) the revenues received from Loan Payments received pursuant to Loans reimbursed or originated with proceeds of the Series 2007A Bonds with debt service payable on Series 2007A Bonds, and (ii) the overall debt service requirements on the Outstanding Bonds and the Series 2007A Bonds with revenues received from Loan Payments on all outstanding Loans, the NMFA shall, within 365 days following the receipt of a Prepayment, in part or in full, of a Loan reimbursed with proceeds of Series 2007A Bonds, take separately or in combination any one or more of the actions described in subsections (a), (b) or (c) of this Section:

(a) The NMFA may, to the extent practicable, call for optional redemption prior to maturity Series 2007A Bonds which are subject to redemption, selecting Series 2007A 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 pursuant to this Subsection); or

(b) The NMFA may, to the extent practicable, originate one or more new Loans (i) in an aggregate principal amount equal to or greater than the amount of the Prepayment (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied pursuant to this Subsection), and (ii) with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied pursuant to this Subsection). The NMFA shall provide a Cash Flow Statement to the Trustee establishing that, in taking the actions described in subsection (b) of this Section, the requirements of the Cash Flow Statement, as defined in Section 1.1 of the General Indenture, are satisfied.

(c) In the event that the NMFA does not take one of the actions described in either subsections (a) or (b) of this Section, the NMFA shall defease Series 2007A Bonds, in Authorized Denominations, to the first optional redemption date for such Series 2007A Bonds, 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 pursuant to this Subsection). The principal amount and maturity date of the Series 2007A 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 which is consistent with the actions taken as described in subsections (a), (b) or (c) of this Section.

(d) If, within 90 days following the receipt of a Prepayment, the NMFA has not either redeemed Bonds as provided in Subsection (a) of this Section or originated one or more new Loans as provided in Subsection (b) of this Section, the NMFA shall restrict the yield on investment of the Prepayment amount to the yield on the Loan for 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 Series 2007A Bonds have been defeased as provided in Subsection (c) of this Section.

To date, the NMFA has not received any Prepayments on loans or securities pledged as Loans or Additional Pledged Loans under the General Indenture, as previously supplemented.

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:

- The 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[(1)], 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.

For most purposes of the Indenture, "Rating Agencies" means Moody's Investors Service, Inc., Standard & Poor's Ratings Services 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., Standard & Poor's Ratings Services 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 outstanding principal amounts on the Agreements submitted to the Rating Agency to date, 95.18% have been designated Category I, 4.64% have been designated Category II and 0.18% have been designated 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.

[(1)] "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.

Outstanding Parity Bonds

The NMFA issued its $50,395,000 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C (the "Series 2005C Bonds"), its $8,660,000 Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D (the "Series 2005D Bonds"), its $23,630,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E (the "Series 2005E Bonds"), its $21,950,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F (the "Series 2005F Bonds," and together with the Series 2005C Bonds, the Series 2005D Bonds and the Series 2005E Bonds the "2005 Subordinate Bonds"), its $49,545,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2006A (the "Series 2006A Bonds") and its $39,860,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2006C, pursuant to the Indenture. Those Bonds are currently outstanding in the following amounts:

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of February 15, 2007[1]
2005C [2] [3]	$50,395,000	$50,395,000
Taxable 2005D [2] [3]	8,660,000	4,355,000
2005E[4]	23,630,000	23,630,000
2005F[5]	21,950,000	21,950,000
2006A[6]	49,545,000	49,545,000
2006C[7]	39,860,000	39,860,000
Total	$194,040,000	$189,735,000

(1) Bonds mature on June 15.
(2) The Series 2005C and Series 2005D Bonds were issued to refinance bonds issued in 2001, 2002 and 2003 to finance a new Metropolitan Courthouse Complex located in downtown Albuquerque (the "Metro Court"). The FBI is currently investigating allegations of kickbacks in connection with the construction of the Metro Court. The NMFA does not expect that the investigation will impact the repayment of the Series 2005C Bonds or the Series 2005D Bonds.
(3) The official statement for the NMFA's Series 2005C Bonds and Series 2005D Bonds, which includes information concerning the Metro Court Bonds, is available at the Internet site http://www.munios.com.
(4) The official statement for the NMFA's Series 2005E Bonds, which includes information concerning the 2005 Subordinate Lien Cigarette Tax Bonds, is available at the Internet site http://www.munios.com.
(5) The official statement for the NMFA's Series 2005F Bonds is available at the Internet site http://www.munios.com.
(6) The official statement for the NMFA's Series 2006A Bonds is available at the Internet site http://www.munios.com.
(7) The official statement for the NMFA's Series 2006C Bonds is available at the Internet site http://www.munios.com.

Source: Western Financial Group, LLC

See "ANNUAL DEBT SERVICE REQUIREMENTS" for Debt Service Requirements on the Outstanding Bonds and aggregate payments under Agreements.

The NMFA may issue additional bonds pursuant to the Indenture from time to time to satisfy the financing needs of governmental entities in the State of New Mexico.

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 from time to time to satisfy the financing needs of governmental entities of the State of New Mexico. 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 February 15, 2007[1]
1997	$8,585,000	$435,000
1999A	13,135,000	7,900,000
1999B	3,025,000	1,385,000
1999C	2,265,000	970,000
1999D	4,875,000	2,620,000
2000A	4,715,000	1,650,000
2000B	7,670,000	1,030,000
2000C	28,850,000	2,420,000
2002A	55,610,000	26,565,000
2003A	39,945,000	25,331,000
2003B	25,370,000	23,545,000
2004A-1	28,410,000	23,710,000
2004A-2	14,990,000	13,720,000
2004B-1	48,135,000	43,420,000
2004B-2	1,405,000	1,260,000
2004C	168,890,000	157,785,000
2005A	19,015,000	18,095,000
2005B	13,500,000	13,320,000
2006B	38,260,000	38,260,000
2006D	56,400,000	56,400,000
Total Outstanding	$583,050,000	$459,821,000

(1) 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 the 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.

Revisions to laws of the State affecting, among other things, tax rates, taxed activities and distributions of governmental gross receipts tax revenues could be adopted in the future by the State legislature. The State legislature currently is considering certain proposals which may affect taxed activities and distributions. There is no assurance that any future revisions to State laws will not adversely affect, among other things, tax rates, activities now subject to the governmental gross receipts tax or distribution of governmental gross receipts tax revenues to the NMFA. However, the State has pledged to and agreed with holders of any bonds or notes issued under the Act that the State will not limit or alter the rights vested by the Act in the NMFA to fulfill the terms of any agreements made with the holders thereof or in any way impair the rights and remedies of those holders until the bonds or notes together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

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

- the sale of tangible personal property other than water from facilities open to the general public;
- the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public;
- refuse collection, refuse disposal or both;
- sewage services;
- the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State; and
- the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tie-down aircraft or dock boats.

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

The governmental gross receipts tax was enacted into law and first imposed in 1991. It is imposed at a rate of five percent on the governmental gross receipts of every agency, institution, instrumentality or political subdivision of the State, except any school district and any entity licensed by the State Department of Health that is principally engaged in providing health care services. In addition, the governmental gross receipts tax is not imposed on:

- receipts from transactions involving tangible personal property or services on which the gross receipts tax, compensating tax, motor vehicle excise tax, gasoline tax, special fuel tax, special fuel excise tax, oil and gas emergency school tax, resources tax, processors tax, service tax, or the excise tax imposed under Section 66-12-6.1 NMSA 1978;
- 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, Section 3-65-1 *et seq.* NMSA 1978; 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 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 2005-06. There can be no assurance that governmental gross receipts tax collections will continue to grow at historical rates or otherwise.

Governmental Gross Receipts Tax Collections
Fiscal Years 2000-2001 Through 2005-06

	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06[1]
Total Net Receipts	$20,994,555	$20,616,433	$22,908,393	$24,491,159	$24,593,886	$24,875,527
NMFA Portion of the Governmental Gross Receipts Tax	$15,745,916	$15,462,325	$17,181,295	$18,368,369	$18,445,414	$18,656,645

Source: State of New Mexico Taxation and Revenue Department

Presented below is information relating to the ten top payers of the governmental gross receipts tax for fiscal years 2002-03 through 2004-05, the most recent year for which such information is available. The information is not publicly available from the State and has been obtained from each individual entity. The NMFA does not guarantee the accuracy of the information.

Top Payers of Governmental Gross Receipts Taxes
Fiscal Years 2002-03 Through 2004-05[2]

	Fiscal Year 2002-03		Fiscal Year 2003-04		Fiscal Year 2004-05	
Entity	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts
Albuquerque Bernalillo County Water Utility Authority[1]	N/A	N/A	$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, to be 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 to be 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 MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix H for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Series 2007A Bonds or the advisability of investing in the Series 2007A Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the NMFA to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2007A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 2007A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2007A Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2007A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Series 2007A Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2007A 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 2007A 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 2007A Bonds or presentment of such other proof of ownership of the Series 2007A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2007A Bonds in any legal proceeding related to payment of insured amounts on the Series 2007A Bonds, such instruments being in a form satisfactory to US. Bank Trust National Association, US, Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2007A Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MB1A") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

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

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

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

The above ratings are not recommendations to buy, sell or hold the Series 2007A 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 2007A Bonds. MBIA does not guaranty the market price of the Series 2007A Bonds nor does it guaranty that the ratings on the Series 2007A Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of $11.0 billion (audited), total liabilities of $7.2 billion (audited), and total capital and surplus of $3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of $11.5 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form l0-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2007A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

Debt Service Reserve Fund Surety Bond

MBIA has provided a commitment to issue a surety bond (the "Debt Service Reserve Fund Surety Bond"), which constitutes a Reserve Instrument. The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Paying Agent to MBIA to the effect that insufficient amounts are on deposit in the Bond Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Series 2007A Bonds, MBIA will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the Series 2007A Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by MBIA of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the Series 2007A Bonds as specified in the Demand for Payment presented by the Paying Agent to MBIA, MBIA 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 to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by MBIA with the Paying Agent which have not been reimbursed by the NMFA. The NMFA and MBIA will enter into a Financial Guaranty Agreement to be dated January 18, 2007 (the "Agreement"). Pursuant to the Agreement, the NMFA is required to reimburse MBIA within one year of any deposit, the amount of such deposit made by MBIA with the Paying Agent under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made from amounts on deposit in the Revenue Fund only after all required deposits to the Bond Fund have been made.

Under the terms of the Agreement and the Indenture, the Paying Agent is required to reimburse MBIA, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated, before any additional moneys are transferred from the Revenue Fund to the NMFA for purposes permitted under the Indenture. Optional redemption of the Series 2007A Bonds may be made until MBIA's Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Paying Agent in the Debt Service Reserve Fund and is provided as an alternative to the NMFA depositing funds equal to the Debt Service Reserve Requirement for outstanding Series 2007A Bonds. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to the Debt Service Reserve Requirement for the Series 2007A Bonds and the premium therefor will be fully paid by the NMFA at the time of the delivery of the Series 2007A Bonds.

THE PLAN OF FINANCING

Purposes of the Series 2007A Bonds

Proceeds of the Series 2007A Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain Governmental Units that will be or were used to finance certain Projects for such Governmental Units; (ii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007A Bonds; (iii) paying accrued interest; and (iv) paying costs incurred in connection with the issuance of the Series 2007A Bonds. See Appendix G for a list of the Governmental Units and the outstanding balances of the Loans financed with the Series 2007A Bonds and information relating to the Governmental Units with the largest payments obligations.

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Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2007A Bonds are presented in the following table.

Sources and Uses of Funds

SOURCES:	
Par Amount	$34,010,000.00
Accrued Interest	52,738.33
Net Premium	1,665,889.85
TOTAL SOURCES:	$35,728,628.18
USES:	
Reimbursement of Loans[1]	$35,129,399.85
Deposit to Debt Service Account	52,738.33
Costs of Issuance[2]	546,490.00
TOTAL USES:	$35,728,628.18

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(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 municipal bond insurance and reserve fund surety and other miscellaneous costs. See "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2007A Bonds and all currently Outstanding Bonds for each fiscal year through their respective final maturity dates.

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Debt Service for the Bonds

Fiscal Year	Series 2007A Bonds Principal[1]	Interest[2] [3]	Total	All Other Subordinate Parity Bonds[4]	Total Subordinate Parity Bonds[4]
2007	$315,000	$527,383	$842,383	$12,271,689	$13,114,072
2008	1,400,000	1,569,550	2,969,550	12,983,072	15,952,622
2009	1,855,000	1,513,550	3,368,550	14,279,700	17,648,250
2010	2,510,000	1,439,350	3,949,350	13,426,813	17,376,163
2011	2,285,000	1,338,950	3,623,950	13,398,150	17,022,100
2012	2,375,000	1,247,550	3,622,550	13,834,513	17,457,063
2013	2,470,000	1,152,550	3,622,550	13,970,263	17,592,813
2014	2,540,000	1,029,050	3,569,050	14,561,388	18,130,438
2015	2,580,000	902,050	3,482,050	14,540,288	18,022,338
2016	2,565,000	773,050	3,338,050	15,220,625	18,558,675
2017	2,775,000	644,800	3,419,800	15,452,675	18,872,475
2018	2,720,000	506,050	3,226,050	15,516,550	18,742,600
2019	1,415,000	370,050	1,785,050	16,108,100	17,893,150
2020	1,490,000	299,300	1,789,300	17,026,094	18,815,394
2021	1,425,000	224,800	1,649,800	16,377,194	18,026,994
2022	585,000	153,550	738,550	16,340,494	17,079,044
2023	605,000	124,300	729,300	16,212,325	16,941,625
2024	640,000	94,050	734,050	16,105,325	16,839,375
2025	670,000	62,050	732,050	15,921,325	16,653,375
2026	700,000	33,575	733,575	5,884,250	6,617,825
2027[5]	90,000	3,825	93,825	3,996,213	4,090,038
2028	-	-	-	2,859,000	2,859,000
2029	-	-	-	2,857,250	2,857,250
2030	-	-	-	2,860,750	2,860,750
2031	-	-	-	2,859,000	2,859,000
2032	-	-	-	2,857,000	2,857,000
2033	-	-	-	2,859,500	2,859,500
2034	-	-	-	2,861,000	2,861,000
2035	-	-	-	2,861,250	2,861,250
Total	$34,010,000	$14,009,383	$48,019,383	$316,301,792	$364,321,175

(1) Payable on June 15 of each year. Includes any mandatory sinking fund payments.
(2) Payable on June 15 and December 15 of each year, commencing June 15, 2007.
(3) Amounts are rounded to the nearest whole dollar.
(4) Represents principal of and interest on Bonds outstanding as of January 1, 2007, and on the Series 2007A Bonds.
(5) Final maturity.

Source: Western Financial Group, LLC

The following table shows estimated available revenues pledged to the payment of the Subordinate Bonds, total debt service requirements for the Series 2007A Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on fiscal year 2005-06 releases of PPRF Revenues from the Senior Indenture and scheduled payments under the Agreements and Additional Pledged Loans and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – 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

Fiscal Year	Subordinate Lien PPRF Revenues[1]	Agreement Revenues[2][3]	Loan Repayments on Additional Pledged Loans	Estimated Total Revenues[3]	Total Debt Service Requirements[3]	Estimated Annual Coverage Ratios[4]
2007	$25,324,966	$12,866,552	$4,863,794	$43,055,312	$13,114,072	3.28x
2008	25,324,966	15,733,331	13,106,161	54,164,458	15,952,622	3.40x
2009	25,324,966	17,419,925	2,838,328	45,583,219	17,648,250	2.58x
2010	25,324,966	17,155,982	2,490,969	44,971,917	17,376,163	2.59x
2011	25,324,966	16,798,611	2,441,822	44,565,399	17,022,100	2.62x
2012	25,324,966	17,238,471	2,402,329	44,965,766	17,457,063	2.58x
2013	25,324,966	17,375,114	2,351,620	45,051,700	17,592,813	2.56x
2014	25,324,966	17,909,432	2,327,941	45,562,340	18,130,438	2.51x
2015	25,324,966	17,806,851	1,443,731	44,575,548	18,022,338	2.47x
2016	25,324,966	18,351,886	3,721,220	47,398,072	18,558,675	2.55x
2017	25,324,966	18,662,739	450,342	44,438,047	18,872,475	2.35x
2018	25,324,966	18,536,031	350,928	44,211,925	18,742,600	2.36x
2019	25,324,966	17,693,469	343,477	43,361,911	17,893,150	2.42x
2020	25,324,966	18,616,722	294,256	44,235,944	18,815,394	2.35x
2021	25,324,966	17,832,583	232,568	43,390,118	18,026,994	2.41x
2022	25,324,966	16,889,212	229,692	42,443,870	17,079,044	2.49x
2023	25,324,966	16,752,549	227,597	42,305,112	16,941,625	2.50x
2024	25,324,966	16,652,367	224,494	42,201,827	16,839,375	2.51x
2025	25,324,966	16,464,226	221,279	42,010,471	16,653,375	2.52x
2026	25,324,966	6,436,226	206,159	31,967,351	6,617,825	4.83x
2027	25,324,966	3,912,087	22,406	29,259,459	4,090,038	7.15x
2028	25,324,966	2,812,800	-	28,137,766	2,859,000	9.84x
2029	25,324,966	2,815,888	-	28,140,854	2,857,250	9.85x
2030	25,324,966	2,824,463	-	28,149,429	2,860,750	9.84x
2031	25,324,966	2,828,050	-	28,153,016	2,859,000	9.85x
2032	25,324,966	2,831,650	-	28,156,616	2,857,000	9.86x
2033	25,324,966	2,840,025	-	28,164,991	2,859,500	9.85x
2034	25,324,966	2,847,700	-	28,172,666	2,861,000	9.85x
2035	25,324,966	2,854,438	-	28,179,404	2,861,250	9.85x
Total	$734,424,014	$359,756,379	$40,791,111	$1,134,974,505	$364,321,175	

(1) Future collections of the Subordinate Lien PPRF Revenues are based on 2005-06 collections provided by the NMFA. As shown, the figures do not reflect any possible future reduction for payment of debt service on Senior Bonds. For a history of Subordinate Lien PPRF Revenues, see the chart entitled "Historic Subordinate Lien PPRF Revenues" under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Trust Estate."

(2) Represents scheduled payments of Agreements and does not reflect the prepayment of any such Agreements that may occur while the Subordinate Bonds are outstanding.

(3) Amounts are rounded to the nearest dollar.

(4) The Estimated Annual Coverage Ratios are calculated using the 2005-06 Subordinate Lien PPRF Revenues, assuming that no additional Parity Bonds will be issued pursuant to the Indenture; and are subject to change.

Source: NMFA and Western Financial Group LLC

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 33 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- to sue or be sued;
- to adopt and alter an official seal;
- to make and alter bylaws for its organization and internal management and to adopt, subject to the review and approval of the NMFA oversight committee, such rules as are necessary and appropriate to implement the provisions of the Act;
- to appoint officers, agents and employees, prescribe their duties and qualifications and fix their compensation;
- 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 to qualified entities to finance public projects; provided that such grants are not made from the Public Project Revolving Fund;
- 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 advisors, trustees, paying agents, architects, engineers, contractors and such other advisors, consultants and agents as may be necessary and to fix and pay their compensation;

- to apply for and accept gifts or grants of property, funds, services or aid in any form from the United States, any unit of government or any person and to comply, subject to the provisions of the Act, with the terms and conditions of the gifts or grants;

- to maintain an office at any place in the state it may determine;

- subject to any agreement with bondholders to: (1) renegotiate any loan, lease or agreement; (2) consent to any modification of the terms of any loan, lease or agreement; and, (3) purchase bonds, which may upon purchase be canceled; and

- to do any and all things necessary or convenient to carry out its purposes and exercise the powers given and granted in the Act.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members, seven of whom are ex officio members designated in the Act and five of whom are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the State. The seven ex officio members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the governor and the appointed members serve four-year terms. Vacancies are filled by appointment for the remainder of any unexpired term. Any member is eligible for reappointment.

Members of the NMFA also serve on the following committees: Audit Committee, chaired by Katherine Miller; Finance/Loan Committee, chaired by Stephen Flance; Economic Development Committee, chaired by Joanna Prukop; Investment Committee, chaired by Craig Reeves; Contracts Committee, chaired by Ron Curry; and the Executive Committee, chaired by Stephen Flance. The Committees of the NMFA typically meet monthly, and report and make recommendations to the NMFA on matters within their purview.

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 re-established pursuant to Executive Order No. 2006-066 on December 1, 2006, 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 process. The Executive Order designates, among other state officials, the Chief Executive Officer and Chairman of the NMFA as members of the Governor's Finance Council.

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Governing Body and Key Staff Members

Current members of the NMFA, and their respective occupations and term expiration dates, are presented below:

Name	Occupation	Term Expires
Gary Bland[(1)]	State Investment Officer, State Investment Council	not applicable
John Carey[(2)]	President and CEO, Association of Commerce and Industry	01/01/08
Steve Kopelman[(1)]	Interim Executive Director, New Mexico Association of Counties	not applicable
Ron Curry[(1)]	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance[(2) (3)] (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	12/31/09
William Fulginiti[(1)] (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia[(2)]	President, Garcia Honda Albuquerque, New Mexico	01/01/09
Rick Homans[(1)]	Secretary, Economic Development Department, State of New Mexico	not applicable
Katherine B. Miller[(1)]	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Jennifer Taylor[(2)]	Associate Vice President for Business and Finance, New Mexico State University	12/31/07
Joanna Prukop[(1)] (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves[(2)] (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	12/31/07

(1) *Ex officio* member. An *ex officio* member may designate an alternative member. Alternate members may attend meetings and vote on all matters considered by the NMFA.
(2) Appointed by the Governor of the State.
(3) Chairman Flance's previous term expired on January 1, 2006. The Governor of the State reappointed Chairman Flance on January 4, 2006 to a term expiring on December 31, 2009. The Chairman's name was duly submitted for confirmation by the New Mexico State Senate as required by the NMFA Act. The Legislature adjourned prior to a Senate vote being held to confirm the Chairman's reappointment. On February 22, 2006, the Governor signed a letter reiterating his appointment of Chairman Flance to the term expiring December 31, 2009, stating that Chairman Flance shall remain as a member under "holdover" status until he or a successor is duly qualified under the New Mexico Constitution. Confirmation is expected to be considered during the current session of the State Legislature which commenced January 16, 2007.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2007A Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development 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, New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

Jerome L. Trojan, Chief Operating Officer. Mr. Trojan joined the NMFA in January 2005. He has extensive experience in local government, having served as Assistant City Manager for the Cities of Las Cruces, New Mexico and Mountlake Terrace, Washington, Administrative Services Director for Santa Fe, New Mexico, Finance Director for Las Cruces, New Mexico, and Finance Director for Bay City, Michigan. In addition, Mr. Trojan has experience in higher education, having held the position of the Vice Chancellor of Administration at the University of Alaska-Fairbanks and served as an Accountant at Delta Community College in Bay City, Michigan. A Certified Public Accountant, he graduated from Central Michigan University with a Master of Business Administration with a concentration in Finance and from Western Michigan University with a Bachelor of Business Administration, with a major in Accounting and a minor in Economics. Mr. Trojan has taken the required courses for a Doctorate in International Management from Nova Southeastern University. While at the City of Las Cruces, Mr. Trojan led the City's effort to reduce electric utility costs to the community. He is active in the International City Managers Association and was instrumental in the establishment of the New Mexico Finance Officers Association.

Joseph Gosline, Chief Financial Officer. Mr. Gosline joined the NMFA in October 2005. Mr. Gosline has 15 years of experience in financial management. He previously worked with the NMFA for 5 1/2 years, leaving to work for one year at a financial company that 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 Bachelor of Business Administration in accounting and a Master of Business Administration in finance from the College of Santa Fe.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 17 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for $203.5 million in financings for the NMFA. Mr. Turner earned a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration from New Mexico State University.

John Duff, Chief Investment Officer. Mr. Duff joined the NMFA as Chief Investment Officer in February 2006. Mr. Duff has more than 20 years experience in investment management, financial management, and public accounting. He has held positions as COO and CFO of publicly held corporations and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. As Chief Investment Officer, Mr. Duff is responsible for management of the NMFA's investment portfolio. Mr. Duff has a Bachelor of Arts degree in economics from Oberlin College and a Master of Business Administration in accounting and finance from Miami University.

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

The Public Project Revolving Fund Program

General

The Act created the Public Project Revolving Fund (the "PPRF") Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of $1 million per project require specific legislative authorization. As of September 30, 2006, the NMFA had made 551 PPRF loans totaling approximately $956,546,123. To implement the PPRF Program, the NMFA has been granted the following specific powers:

- to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;

- to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (1) a loan to a qualified entity, (2) a purchase or sale of securities individually or on a pooled basis, or (3) the performance of its duties and execution of any of its powers under the Act;

- to purchase, hold or sell securities at prices and in a manner the NMFA considers advisable, giving due consideration to the financial capability of the qualified entity, and sell securities acquired or held by it at prices without relation to cost and in a manner the NMFA considers advisable;

- to prescribe the form of application or procedure required of a qualified entity for a loan or purchase of its securities, fix the terms and conditions of the loan or purchase and enter into agreements with qualified entities with respect to loans or purchases;

- to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities, whether or not the loan is made or the securities purchased;

- to fix and establish terms and provisions with respect to: (1) a purchase of securities by the NMFA, including date and maturities of the securities; (2) redemption or payment before maturity; and (3) any other matters that in connection with the purchase are necessary, desirable or advisable in the judgment of the NMFA;

- to the extent permitted under its contracts with the holders of bonds of the NMFA, consent to modification of the rate of interest, time and payment of installment of principal or interest, security or any other term of a bond, contract or agreement of any kind to which the NMFA is a party;

- in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and

- to acquire fee simple, leasehold, mortgagor's or mortgagee's interests in real and personal property and to sell, mortgage, convey or lease that property for NMFA purposes; and

- in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

The 2006 Legislature authorized the NMFA to use the Public Project Revolving Fund to purchase bonds used to capitalize programs authorized by law and administered by the NMFA and to finance projects of non-profit or other support organizations affiliated with public institutions of higher education located in the State. The recipients of such loans originated with moneys in the PPRF will be required to repay the borrowed funds.

The Senior Lien Program

The NMFA is authorized to issue bonds pursuant to the 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 Governmental Units, including local governmental entities of the State, an Indian Nation, and departments and agencies of State government, for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Senior Bonds" for a list of series of outstanding Senior Bonds and a description of the revenues securing them.

The Subordinate Lien Program

The NMFA also is authorized to issue Bonds pursuant to the 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 issued pursuant to the Indenture ("Subordinate Lien Bonds"), enter into a loan agreement with the Governmental Unit or may purchase securities of the Governmental Unit in consideration for the loan of a portion of the proceeds of such Subordinate Lien Bonds for projects. The NMFA has issued six previous series of Subordinate Lien Bonds. The proceeds of such Subordinate Lien Bonds were used to make loans for the construction of infrastructure projects. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Subordinate Lien Debt" for a description of each series of outstanding Subordinate Lien Bonds and the revenues securing them.

Contingent Liquidity Account

In an effort to pursue its policy of maintaining a sufficient cash balance to meet the borrowing needs of New Mexico's governmental entities and improving the fund and cash balances of the Public Project Revolving Fund program, the NMFA established a contingency account (the "Contingent Liquidity Account") effective July 1, 2006. Although it will not be pledged to the Series 2007A Bonds, or any other NMFA bonds, the Contingent Liquidity Account is intended to enhance the NMFA's ability to meet the cash-flow needs of the Public Project Revolving Fund program. Funds from the Contingent Liquidity Account may be used to pay debt service on NMFA bonds; however, such funds may also be used for other purposes, including but not limited to SWAP termination payments (to date the NMFA has not entered into any counterparty agreements related to the Public Project Revolving Fund), loan originations, or to address other purposes as determined by the NMFA. The Contingent Liquidity Account received an initial funding of $20,000,000. Upon approval of the NMFA, the Contingent Liquidity Account may receive annual increases thereafter of an amount approximately equal to 25% of the Governmental Gross Receipts Tax funds received by the NMFA at the end of the fiscal year. In future years, the NMFA plans to annually evaluate the level of the Contingent Liquidity Account to determine the amount, if any, of subsequent deposits.

Other Programs and Projects

The NMFA also participates in or administers 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 2007A 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 2007A Bonds or in any way contesting or affecting the validity or enforceability of the Series 2007A 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 2007A Bonds.

UNDERWRITING

Ramirez & Co., Inc., Piper Jaffray & Co. and Cabrera Capital Markets, Inc. (the "Underwriters") have agreed to purchase the Series 2007A Bonds from the NMFA pursuant to a Bond Purchase Agreement dated January 18, 2007 (the "Bond Purchase Agreement"), at an aggregate price of $35,567,138.18 (being the aggregate principal amount plus accrued interest of $52,738.33 plus a net premium of $1,665,889.85 and less underwriter's discount of $161,490.00). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2007A 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 2007A 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 2007A Bonds. The NMFA and the Governmental Units whose loans are being financed by the issuance of the Series 2007A 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 2007A Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007A Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and such Governmental Units with such requirements and restrictions in rendering its opinion regarding the tax-exempt status of interest on the Series 2007A 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 2007A Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the Series 2007A 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 2007A 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 2007A Bonds.

Original Issue Premium. Certain of the Series 2007A Bonds are offered at a premium ("original issue premium") over principal amount. Original issue premium is amortizable periodically over the term of a Series 2007A Bond through reductions in the holder's tax basis for the Series 2007A 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 2007A Bond rather than creating a deductible expense or loss. Series 2007A Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the Series 2007A 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 2007A Bond accrues as tax-exempt interest periodically over the term of the Series 2007A Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2007A Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2007A 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 2007A 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 2007A Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions in substantially the forms included in Appendix D. Certain legal matters will be certified for the NMFA by the Office of the Attorney General for the State of New Mexico and be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt Farber Schreck, P.C., Disclosure Counsel to the NMFA, and for the Underwriters by Lewis and Roca LLP. 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 2007A Bonds. Western Financial Group, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

FINANCIAL STATEMENTS

The combined financial statements of the NMFA for the year ended June 30, 2005, included in Appendix A-1 of this Official Statement, have been audited by Meyners & Company, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated December 9, 2005. Meyners & Company, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement. Included in Appendix A-2 are the Unaudited Combined Balance Sheet as of June 30, 2006 and the Unaudited Combined Statement of Revenues and Expenditures for the Fiscal Year Ended June 30, 2006. See "INTRODUCTION – Professionals Involved in the Offering."

FORWARD-LOOKING STATEMENTS

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

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission in connection with the issuance of the Series 2007A 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 2007A 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 2000-2001 Through 2005-06 (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 2007A 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 2007A Bonds;

  - modification of rights of security holders;

  - bond calls;

  - defeasances;

- release, substitution, or sale of property securing repayment of the Series 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bonds. See Appendix G for a discussion of Governmental Units with the largest outstanding principal loan balances.

RATINGS

Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aaa", "AAA" and "AAA", respectively, to the Series 2007A Bonds with the understanding that upon delivery of the Series 2007A Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2007A Bonds will be issued by MBIA Insurance Corporation. In addition, Moody's, S&P and Fitch have assigned underlying (i.e., without regard to a municipal bond insurance policy) long-term ratings of "Aa3", "A+" and "AA-" respectively, to the Series 2007A Bonds. An explanation of the significance of such ratings may be obtained from Moody's, S&P and Fitch.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2007A 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 2007A Bonds may have an adverse effect on the market price of the Series 2007A Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2007A Bonds any proposed revision or withdrawal of the ratings on the Series 2007A Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information in this Official Statement is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained in this Official Statement do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated as such, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2007A 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 Chief Executive Officer.

NEW MEXICO FINANCE AUTHORITY

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

By /s/ William C. Sisneros
William C. Sisneros,
Chief Executive Officer

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APPENDIX A-1

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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NEW MEXICO
FINANCE AUTHORITY

Financial Statements
for the Year Ended
June 30, 2005,
and Independent
Auditors' Report

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Year Ended June 30, 2005

Governing Board

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Gary Bland, Member
John A. Carey, Member
Gustavo Cordova, Member
Ron Curry, Member
Ed Garcia, Member
James Jimenez, Member
Rick Homans, Member
James L. McDonough, Member
Joanna Prukop, Member
Craig Reeves, Member

Executive Director
William C. Sisneros

Chief Operations Officer
Jerome Trojan

Chief Financial Officer
Joseph Gosline

MEYNERS +
COMPANY, LLC
*Certified Public Accountants/
Consultants to Business*
500 Marquette NW, Suite 800
Albuquerque, New Mexico 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com
*An Independent Member of the
BDO Seidman Alliance*

INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2005, and the respective changes in the financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general and special revenue funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was made for the purpose of forming opinions on the financial statements of the Authority taken as a whole. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

December 9, 2005

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

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

Financial Highlights

- The Authority's governmental net assets decreased by $17,559,070 in fiscal year 2005 from 2004.
- The Authority's program revenues decreased by $2,066,918 in fiscal year 2005 from 2004.
- The total cost of all Authority programs was $97,863,092, an increase of $8,865,382 over 2004.

Authority Highlights

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

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2005, the PPRF program made approximately 58 loans totaling approximately $187.6 million, compared to 90 loans totaling approximately $115.2 million in FY2004.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2005, the DWRLF made five loans totaling $12.6 million compared to one loan totaling $1.8 million in FY2004. The FY2005 binding commitments numbered four, approximating $20.5 million, compared to seven totaling approximately $31.5 million in FY2004.

__Authority Highlights__ **- continued**

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2005, the Authority Board has approved 14 loans totaling $7.75 million.

During FY2005, the Authority issued $237.9 billion in bonds to provide reimbursement to the Public Projects Revolving Loan Fund, refund the outstanding metro Court Bonds and provide financing for the UNM Health Sciences Center.

The Authority's grant program, the Water/Waste Water Grant Fund Program, was created in 1999 to help qualified disadvantaged entities fund critical water and wastewater projects. In FY2005, 30 grants closed for a total of $11,457,000, compared to 40 grants totaling $10,730,017 in FY2004.

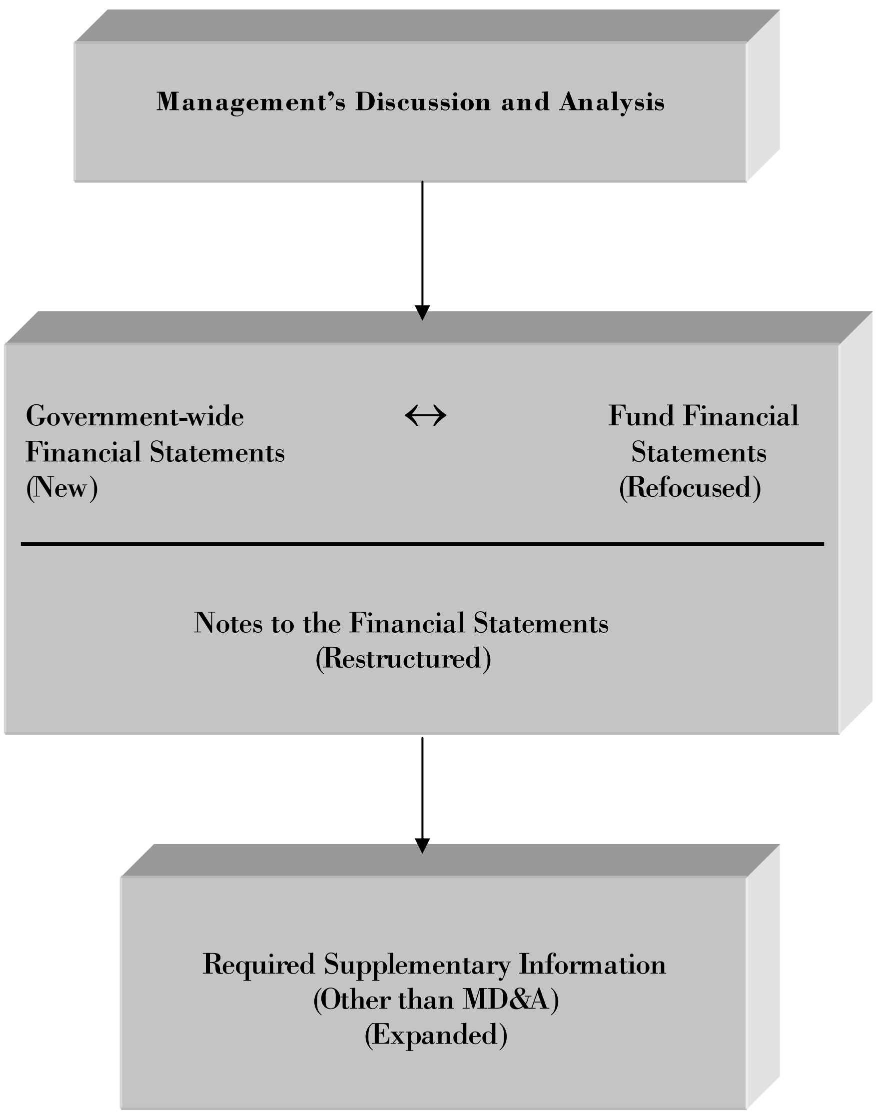
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Using This Annual Report

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

Using This Annual Report - continued



Management's Discussion and Analysis

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

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

Government-Wide Financial Statements - continued

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities - All of the Authority's stand-alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the Authority are the Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Behavioral Health Clinic Financing, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capital Improvement Financing and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities - The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the GRIP Administrative Fund and the General Operating Fund.

Fund Financial Statements

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

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

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

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

Notes to the Financial Statements

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

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis Of The Authority As A Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2005. FY2005 net assets for Governmental Activities and Business-type Activities were ($60,978,165) and $159,955,266, respectively. Total Authority net assets for fiscal year 2005 are $101,472,809. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2005	2004	2005	2004	2005	2004
Current and other assets	$	75,171,015	122,103,991	248,080,457	165,606,355	323,251,472	287,710,346
Capital and non-current assets		4,047,008	5,465,722	476,415,138	316,295,820	480,462,146	321,761,542
Total assets		79,218,023	127,569,713	724,495,595	481,902,175	803,713,618	609,471,888
Current liabilities		5,267,723	12,212,900	101,828,939	105,575,960	107,096,662	117,788,860
Long-term liabilities		134,928,465	136,745,673	459,805,324	236,833,363	594,733,789	373,579,036
Total liabilities		140,196,188	148,958,573	561,634,263	342,409,323	701,830,451	491,367,896
Net Assets:							
Invested in capital assets		118,808	23,010	140,719	46,023	259,527	69,033
Restricted		(61,096,973)	(21,411,870)	159,955,266	138,667,438	98,858,293	117,255,568
Unrestricted		-	-	2,354,989	779,391	2,354,989	779,391
Total net assets		(60,978,165)	(21,388,860)	162,861,332	139,492,852	101,883,167	118,103,992
Total liabilities and net assets	$	79,218,023	127,569,713	724,495,595	481,902,175	803,713,618	609,471,888

Changes in Net Assets: The Authority's change in net assets for fiscal year 2005 was a decrease of $16,631,183 (Table A-2). A significant portion, twenty-eight percent (28%), of the Authority's revenue comes from Tax Revenue. Four percent (4%) comes from other operating grants and contributions, and seven percent (7%) from interest and investment income. Thirty-five percent (35%) comes from state general fund appropriations, and charges for services and other revenue comprise twenty-six percent (26%) of total revenue.

Table A-2
Changes in the Department's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2005	2004	**2005**	2004	**2005**	2004
Revenues:							
Program		**1,143,328**	3,561,199	**22,779,749**	17,171,546	**23,923,077**	20,732,745
General		**28,942,690**	19,532,231	**23,119,623**	19,549,618	**52,062,313**	39,081,849
Total revenues		**30,086,018**	23,093,430	**45,899,372**	36,721,164	**75,985,390**	59,814,594
Expenses		**72,279,123**	71,484,073	**24,656,082**	17,513,637	**96,935,205**	88,997,710
Net revenues (loss) before transfers and reversions		**(42,193,105)**	(48,390,643)	**21,243,290**	19,207,527	**(20,949,815)**	(29,183,116)
Transfers and reversions		**1,588,800**	(999,821)	**(1,588,800)**	999,821	**-**	-
(Decrease) increase in net assets		**(40,604,305)**	(49,390,464)	**19,654,490**	20,207,348	**(20,949,815)**	(29,183,116)
Net assets, beginning of year		**(20,373,860)**	28,001,604	**143,206,842**	119,285,504	**122,832,982**	147,287,108
Net assets, end of year	$	**(60,978,165)**	(21,388,860)	**162,861,332**	139,492,852	**101,883,167**	118,103,992

Governmental-Type Activities

The Authority's total expenditures for governmental-type activities during the fiscal year were $73,207,010. The highest area of expenditures, $22,061,406, thirty percent (30%), was in the area of Debt Service.

The second highest area of expenditures within the Authority is in the category of Grant Expenses.

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $23,119,623. The majority of business-type expenditures, $16,715,207, seventy-three percent (73%), was in the area of Debt Service. Within the operating cost category, salaries and benefits comprised seven percent (7%) of total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were twenty percent (20%) of total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2005, the Authority had invested a total of $118,808 net of depreciation in business-type activities and $140,718 in fixed assets for government-type activities. During FY2005, capital outlay expenditures totaled $119,209. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

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

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2005, the total amount outstanding was $570 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

Bond Ratings

The Authority's insured bond ratings are as follows:

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

The Authority's uninsured bond ratings are:

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

There were no changes in bond ratings during the year ended June 30, 2005.

Economic Factors and Next Year's Budgets and Rates

The FY2005 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

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

The Authority's primary operating budget for FY2005 was $4,117,898, compared to the FY2004 budget of $2,699,446, a 52.5%increase.

Contacting the Authority's Financial Management

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

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
ASSETS				
Cash and cash equivalents (Note 2):				
Unrestricted	$	69,519,412	76,532,265	146,051,677
Restricted		3,617,440	109,062,082	112,679,522
Receivables:				
Tax revenue		1,865,951	4,820,218	6,686,169
Interest		18,054	3,707,575	3,725,629
Grant and other		31,350	2,790,877	2,822,227
Due from other state agencies		-	96,986	96,986
Due from other funds (Note 5)		-	2,060,560	2,060,560
Administrative fees receivable		-	291,097	291,097
Loans receivable, net of allowance (Note 3)		1,015,000	458,357,554	459,372,554
Securities (Note 4)		-	12,761,663	12,761,663
Restricted asset - escrow		-	47,544,110	47,544,110
Capital assets, net of depreciation (Note 7)		118,808	140,718	259,526
Deferred costs, net		3,032,008	6,314,710	9,346,718
Other assets		-	15,180	15,180
TOTAL ASSETS	$	79,218,023	724,495,595	803,713,618
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	$	495,732	999,801	1,495,533
Accured payroll, fringe benefits and compensated absences (Note 11)		162,151	177,155	339,306
Accrued interest payable		757,854	1,565,982	2,323,836
Debt service payable		111,140	38,387,390	38,498,530
Notes payable		2,000,000	-	2,000,000
Funds held for others		-	59,799,481	59,799,481
Due to other state agencies (Note 5)		-	579,416	579,416
Due to other funds		1,740,846	319,714	2,060,560
Bonds payable, current		10,564,000	24,813,000	35,377,000
Bonds payable, long-term (Note 8)		124,364,465	434,992,324	559,356,789
TOTAL LIABILITIES		140,196,188	561,634,263	701,830,451
NET ASSETS:				
Invested in capital assets (Note 7)		118,808	140,718	259,526
Restricted for:				
Debt service		22,158,186	-	22,158,186
Program funds		(83,255,159)	159,955,266	76,700,107
Unrestricted		-	2,765,348	2,765,348
TOTAL NET ASSETS		(60,978,165)	162,861,332	101,883,167
TOTAL LIABILITIES AND NET ASSETS	$	79,218,023	724,495,595	803,713,618

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

		Governmental Activities	Business-type Activities	Total
EXPENSES:				
Capital financing	$	72,279,123	24,656,082	96,935,205
PROGRAM REVENUES:				
Charges for services		-	19,799,701	19,799,701
Operating grants and contributions		1,143,328	2,980,048	4,123,376
TOTAL PROGRAM REVENUES		1,143,328	22,779,749	23,923,077
GENERAL REVENUES:				
Governmental gross receipts and gross receipts tax		-	20,998,900	20,998,900
Investment earnings		2,752,656	2,120,723	4,873,379
State General Fund appropriations		26,180,002	-	26,180,002
Other revenue		10,032	-	10,032
TOTAL GENERAL REVENUES		28,942,690	23,119,623	52,062,313
TRANSFERS		1,588,800	(1,588,800)	-
CHANGE IN NET ASSETS		(40,604,305)	19,654,490	(20,949,815)
NET ASSETS, BEGINNING OF FISCAL YEAR		(21,388,860)	139,992,965	118,604,105
Restatement of net assets (Note 16)		1,015,000	3,213,877	4,228,877
NET ASSETS, BEGINNING OF FISCAL YEAR, AS RESTATED		(20,373,860)	143,206,842	122,832,982
NET ASSETS, END OF FISCAL YEAR	$	(60,978,165)	162,861,332	101,883,167

AS OF JUNE 30, 2005

		Major Funds							
		Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wasterwater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Unrestricted:									
Cash and cash equivalents	$	3,160,269	3,142,321	15,097,298	53,726	15,979,554	29,385,998	2,700,246	69,519,412
Receivables:									
Tax revenue		846,723	127,913	500,000	-	-	-	391,315	1,865,951
Interest		-	-	-	-	-	-	18,054	18,054
Other		-	31,350	-	-	-	-	-	31,350
Loans receivable		-	-	-	-	-	-	1,015,000	1,015,000
		4,006,992	3,301,584	15,597,298	53,726	15,979,554	29,385,998	4,124,615	72,449,767
Restricted:									
Cash and cash equivalents held for others by trustee:									
Debt service		-	-	-	1,516,816	-	-	30,623	1,547,439
Bond reserve		-	505,738	-	-	-	-	197,963	703,701
Expense fund		-	-	-	-	-	-	-	-
Program - grant proceeds for other state agencies		-	102,078	-	-	-	-	-	102,078
Program - bond proceeds		-	902,322	-	-	-	-	361,900	1,264,222
		-	1,510,138	-	1,516,816	-	-	590,486	3,617,440
TOTAL ASSETS	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207
LIABILITIES:									
Accounts payable and accrued liabilities	$	-	-	321,568	239,529	3,655	5,792	87,339	657,883
Debt service payable		111,140	-	-	-	-	-	-	111,140
Notes payable		-	2,000,000	-	-	-	-	-	2,000,000
Funds held for others		-	-	-	-	-	-	-	-
Due to other state agencies		-	-	-	-	-	-	-	-
Due to other funds		1,275,482	-	-	-	19,850	53,573	391,941	1,740,846
TOTAL LIABILITIES		1,386,622	2,000,000	321,568	239,529	23,505	59,365	479,280	4,509,869
FUND BALANCES:									
Reserve for debt service		2,620,370	-	15,275,730	1,331,013	-	-	2,931,073	22,158,186
Special revenue funds		-	2,811,722	-	-	15,956,049	29,326,633	1,304,748	49,399,152
TOTAL FUND BALANCES		2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338
TOTAL LIABILITIES AND FUND BALANCES	$	4,006,992	4,811,722	15,597,298	1,570,542	15,979,554	29,385,998	4,715,101	76,067,207

See Notes to Financial Statements.

Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds

YEAR ENDED JUNE 30, 2005

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	71,557,338
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
The cost of capital assets is:		147,875
Accumulated depreciation is:		(29,067)
Total capital assets		118,808
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds		3,032,008
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term and other liabilities at year end consist of:		
Bonds payable, net of premium of $2,163,465		(134,928,465)
Accrued interest payable		(757,854)
Total long-term and other liabilities		(135,686,319)
Net assets of governmental activities (Statement of Net Assets)	$	(60,978,165)

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Major Funds							
	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wasterwater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	$ -	-	-	-	430,272	-	713,056	1,143,328
Interest on loans	-	-	-	-	-	-	-	-
Interest on investments	71,427	118,922	333,719	1,049,967	350,989	738,338	89,294	2,752,656
Other revenue	-	-	-	-	-	-	10,032	10,032
TOTAL REVENUES	71,427	118,922	333,719	1,049,967	781,261	738,338	812,382	3,906,016
EXPENDITURES:								
Current:								
Administrative fee	138,469	-	47,153	137,759	-	-	18,350	341,731
Professional services	6,915	12,315	1,428	19,774	72,056	170,269	237,035	519,792
Salaries and fringe benefits	-	-	-	-	92,755	70,303	64,914	227,972
In-state travel	-	-	-	-	6,865	3,765	2,073	12,703
Out-of-state travel	-	-	-	-	804	1,195	4,277	6,276
Maintenance and repairs	-	-	-	-	1,539	1,419	1,990	4,948
Operating costs	-	-	-	-	24,653	20,928	28,114	73,695
Grant expenses	-	-	-	-	1,538,946	10,999,193	561,732	13,099,871
Capital outlay	-	-	-	-	26,351	25,840	67,018	119,209
Debt service - principal	8,360,000	600,000	1,265,000	4,760,000	-	-	-	14,985,000
Debt service - interest	2,774,066	62,810	1,542,586	1,438,648	-	-	1,258,296	7,076,406
Bond issuance costs	-	-	-	458,461	-	-	772,615	1,231,076
TOTAL EXPENDITURES	11,279,450	675,125	2,856,167	6,814,642	1,763,969	11,292,912	3,016,414	37,698,679
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,208,023)	(556,203)	(2,522,448)	(5,764,675)	(982,708)	(10,554,574)	(2,204,032)	(33,792,663)
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	10,000,000	-	-	-	10,000,000
State General Fund appropriations	6,495,663	1,242,405	6,000,000	10,271,553	-	-	2,170,381	26,180,002
Transfers (to) from other funds	2,317,181	(666,461)	-	-	(57,870)	(49,355)	45,305	1,588,800
Transfer to other state agencies	(1,728,888)	(94,150)	(4,666,706)	(43,734,149)	-	-	(738,571)	(50,962,464)
NET OTHER FINANCING SOURCES (USES)	7,083,956	481,794	1,333,294	(23,462,596)	(57,870)	(49,355)	1,477,115	(13,193,662)
NET CHANGE IN FUND BALANCES	(4,124,067)	(74,409)	(1,189,154)	(29,227,271)	(1,040,578)	(10,603,929)	(726,917)	(46,986,325)
FUND BALANCES, June 30, 2004	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	3,947,738	117,528,663
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	1,015,000	1,015,000
FUND BALANCES, June 30, 2004, as restated	6,744,437	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,962,738	118,543,663
FUND BALANCES, June 30, 2005	$ 2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$ (46,986,325)
Amounts reported for governmental activities in the Statement of Activities are different because:	
In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease in the liabilities for the fiscal year was:	
Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Bond obligations were increased during the current fiscal year by:	(10,000,000)
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities these payments are reported as a reduction of the liability. In the current period, these amounts were:	
Principal payments	14,985,000
Other reductions (prepayments, etc.)	412,999
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was:	95,831

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Funds - continued

YEAR ENDED JUNE 30, 2005

Change from prior year in amortization of bond issuance costs:		
Deferred issuance costs FY04 (p. 15 PY)	$ 4,942,712	
Deferred issuance costs FY05 (p. 17 CY)	3,032,008	
		$ (1,910,704)
Change from prior year in amorization of bond premium/discount		
Amortization of bond premium/discount FY04 (p. 58 PY)	4,351,673	
Amortization of bond premium/discount FY05 (p. 61 CY)	2,163,464	
		2,188,209
Reclassification of fund type: In the prior year, Behavioral Health Clinic Fund was a governmental fund. In the current year, it is an enterprise fund. The $500,113 represents the prior year fund balance.		(500,113)
Prior period restatement of fund balance		1,015,000
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:		
Capital outlay		119,209
Depreciation expense		(19,869)
Adjustments/Deletions		(3,542)
Excess of capital outlay over depreciation expense		95,798
Change in net assets of governmental activities (Statement of Activities)		$ (40,604,305)

AS OF JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
ASSETS:								
Current:								
Cash and cash equivalents	$ 106,734	68,618,877	6,279,814	1,467,353	-	59,487	-	76,532,265
Receivables:								
Tax revenue	-	4,793,654	3,460	-	23,104	-	-	4,820,218
Interest	-	3,580,267	127,308	-	-	-	-	3,707,575
Grant and other	139,005	130,412	2,521,460	-	-	-	-	2,790,877
Due from other state agencies	-	24,069	-	72,917	-	-	-	96,986
Due from other funds	785,078	1,275,482	-	-	-	-	-	2,060,560
Administrative fees receivable	-	276,038	15,059	-	-	-	-	291,097
Total current assets	1,030,817	78,698,799	8,947,101	1,540,270	23,104	59,487	-	90,299,578
Loans receivable, net of allowance	-	435,730,919	16,812,533	-	5,353,237	460,865	-	458,357,554
Securities	-	12,761,663	-	-	-	-	-	12,761,663
Restricted assets - cash and cash equivalents	-	97,435,630	9,350,941	-	2,266,477	9,034	-	109,062,082
Escrow	-	47,544,110	-	-	-	-	-	47,544,110
Capital assets:								
Depreciable property and equipment, net	43,655	36,132	27,339	33,592	-	-	-	140,718
Deferred issuance costs, net	-	6,314,710	-	-	-	-	-	6,314,710
Other assets	15,180	-	-	-	-	-	-	15,180
TOTAL ASSETS	$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595
LIABILITIES:								
Accounts payable and other liabilities	$ 38,744	799,574	156,614	342	-	-	4,527	999,801
Accrued payroll, fringe benefits and compensated absences	158,331	12,246	3,410	3,168	-	-	-	177,155
Accrued interest payable	-	1,565,982	-	-	-	-	-	1,565,982
Debt service payable	-	36,970,234	1,417,156	-	-	-	-	38,387,390
Funds held for others	-	58,297,200	1,433,504	-	60,854	7,923	-	59,799,481
Due to other state agencies	-	-	579,416	-	-	-	-	579,416
Due to other funds	-	238,986	46,284	30,692	-	-	3,752	319,714
Bonds payable, current	-	-	-	-	-	-	-	-
Bonds payable, long-term	-	459,805,324	-	-	-	-	-	459,805,324
TOTAL LIABILITIES	197,075	557,689,546	3,636,384	34,202	60,854	7,923	8,279	561,634,263
NET ASSETS:								
Invested in capital assets	43,656	36,132	27,339	33,592	-	-	-	140,719
Restricted for:								
Debt service	-	-	-	-	-	-	-	-
Program funds	-	120,796,285	31,474,191	-	7,581,964	521,463	(8,279)	160,365,624
Unrestricted	848,921	-	-	1,506,068	-	-	-	2,354,989
TOTAL NET ASSETS	892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332
TOTAL LIABILITIES AND NET ASSETS	$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	529,386	-	724,495,595

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
INTEREST EARNINGS:								
Interest on loans	$ -	16,047,183	388,795	-	-	18,656	-	16,454,634
Interest on investments	37,129	1,669,370	243,409	8,623	161,193	999	-	2,120,723
								-
TOTAL INTEREST EARNINGS	37,129	17,716,553	632,204	8,623	161,193	19,655	-	18,575,357
INTEREST EXPENSE:								
Debt service - interest expense	-	16,715,207	-	-	-	-	-	16,715,207
NET INTEREST EARNINGS	37,129	1,001,346	632,204	8,623	161,193	19,655	-	1,860,150
NON-INTEREST EARNINGS:								
Tax revenue	-	20,998,900	-	-	-	-	-	20,998,900
Federal grant revenue	-	-	2,980,048	-	-	-	-	2,980,048
Revolving loans grant revenue	-	-	-	-	-	-	-	-
Administrative fees	1,344,184	275,978	87,008	1,636,202	-	1,695	-	3,345,067
TOTAL NON-INTEREST EARNINGS	1,344,184	21,274,878	3,067,056	1,636,202	-	1,695	-	27,324,015
NON-INTEREST EXPENSE:								
Grant expense	-	1,468,698	-	-	-	-	-	1,468,698
Bond issuance costs	-	288,374	-	-	-	-	-	288,374
Administrative fee	-	-	-	-	-	-	-	-
Professional services	192,978	-	181,725	95,063	1,913	-	8,238	479,917
Loan interest expense	-	187	-	-	-	-	-	187
Salaries and fringe benefits	963,338	482,469	134,170	144,552	-	-	-	1,724,529
Technical set-aside expense	-	-	1,588	-	-	-	-	1,588
In-state travel	11,490	14,712	3,049	4,839	-	-	(13)	34,077
Out of state travel	15,946	10,449	6,898	7,166	-	-	-	40,459
Maintenance and repairs	9,952	5,040	4,323	1,887	-	-	-	21,202
Supplies	30,921	50	5,608	3,065	-	-	-	39,644
Operating costs	151,646	983,643	65,744	25,399	-	-	54	1,226,486
Depreciation	19,869	13,106	7,253	5,526	-	-	-	45,754
TOTAL NON-INTEREST EXPENSE	1,396,140	3,266,728	410,358	287,497	1,913	-	8,279	5,370,915
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS	(14,827)	19,009,496	3,288,902	1,357,328	159,280	21,350	(8,279)	23,813,250
TRANSFERS:								
Transfers in (out)	742,761	(9,519,577)	7,186,103	-	1,913	-	-	(1,588,800)
Transfer from (to) other state agencies	-	-	(2,569,960)	-	-	-	-	(2,569,960)
TOTAL TRANSFERS	742,761	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,760)
CHANGE IN NET ASSETS	727,934	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,490
TOTAL NET ASSETS, June 30, 2004	164,643	108,128,621	23,596,485	182,332	7,420,771	500,113	-	139,992,965
Restatement of net assets	-	3,213,877	-	-	-	-	-	3,213,877
TOTAL NET ASSETS, June 30, 2004, as restated	164,643	111,342,498	23,596,485	182,332	7,420,771	500,113	-	143,206,842
TOTAL NET ASSETS, June 30, 2005	$ 892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2005

		Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Cash paid for employee services	$	(928,263)	(482,469)	(140,944)	(267,846)	-	-	-	(1,819,522)
Cash paid to vendors for services		(606,117)	(2,130,774)	(30,516)	(106,385)	(1,913)	-	-	(2,875,705)
Bond issuance costs		-	(288,374)	-	-	-	-	-	(288,374)
Interest expense paid		-	(15,964,478)	-	-	-	-	-	(15,964,478)
Grants awarded		-	(482,469)	2,554,902	-	-	-	-	2,072,433
Tax revenue		-	18,156,955	-	-	-	-	-	18,156,955
Cash received from federal government for revolving loans		-	-	-	-	-	-	-	-
Interest income received		37,129	17,063,202	632,204	8,623	138,089	19,655	-	17,898,902
Administrative fees received		671,211	-	47,622	1,872,079	-	1,695	-	2,592,607
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		(826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:									
Operating transfers, net		742,818	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,703)
Cash paid to subrecipients for services		-	3,120,704	-	-	-	-	-	3,120,704
Cash provided (used) by funds held for others		-	-	(5,847,856)	-	(399,896)	(51,486)	-	(6,299,238)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES		742,818	(6,398,873)	(1,231,713)	-	(397,983)	(51,486)	-	(7,337,237)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Securities		-	(1,022,154)	-	-	-	-	-	(1,022,154)
Escrow		-	(47,544,110)	-	-	-	-	-	(47,544,110)
Loans funded		-	(181,046,966)	-	-	-	-	-	(181,046,966)
Loan payments received		-	32,478,397	2,738,514	-	310,974	39,135	-	35,567,020
Bonds issued		-	227,945,000	-	-	-	-	-	227,945,000
Payment of bonds		-	(20,862,967)	(23,095)	-	(13,487)	(23,388)	-	(20,922,937)
Debt service		-	16,744,909	-	-	-	-	-	16,744,909
Fixed asset purchases		(41,160)	(34,437)	(26,663)	(39,118)	-	-	-	(141,378)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		(41,160)	26,657,672	2,688,756	(39,118)	297,487	15,747	-	29,579,384
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(124,382)	36,130,392	4,520,311	1,467,353	35,680	(14,389)	-	42,014,965
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2004		231,116	129,924,115	11,110,444	-	2,230,797	82,910	-	143,579,382
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2005	$	106,734	166,054,507	15,630,755	1,467,353	2,266,477	68,521	-	185,594,347
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:		727,935	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,491
Adjustments to operating income:									
Depreciation and amortization		19,869	13,106	7,253	5,526	-	-	-	45,754
Bad debt expense		-	-	-	-	-	-	-	-
Net transfers		(742,818)	9,519,577	(4,616,143)	-	(1,913)	-	-	4,158,703
(Increase) decrease in prepaids and receivables		(680,543)	(4,513,515)	(464,532)	235,877	(23,104)	-	-	(5,445,817)
Increase (decrease) in payables and other accrued liabilities		(150,483)	1,362,506	231,645	(92,260)	-	-	8,279	1,359,687
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$	(826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818

See Notes to Financial Statements.

Statement of Agency Fund Assets and Liabilities

AS OF JUNE 30, 2005

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	619,764,448
Expense funds		1,539,634
Bond reserve funds		41,644,551
TOTAL ASSETS	$	662,948,633
LIABILITIES:		
Accounts payable	$	1,319,225
Debt service payable		41,864,960
Funds held for the New Mexico Department of Transportation		619,764,448
TOTAL LIABILITIES	$	662,948,633

See Notes to Financial Statements.

NATURE OF ORGANIZATION

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

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

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

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

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

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

NATURE OF ORGANIZATION - continued

The financial reporting entity as defined by GASB No. 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The Authority has implemented the provisions of GASB No. 34. As a part of this statement, there is a reporting requirement regarding the local government's infrastructure (roads, bridges, etc.) The Authority does not own any infrastructure assets and, therefore, is unaffected by this requirement.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basic Financial Statements***

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

♦ ***Government-wide and Fund Financial Statements***

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ ***Government-wide and Fund Financial Statements - continued***

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The Government-wide financial statements are prepared using the economic resources measurement focus and the accrued basis of accounting. The fund financial statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

♦ ***Basis of Presentation - Fund Accounting***

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

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

The following fund types and account groups are used by the Authority:

Governmental Fund Types - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

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

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Special Revenue Funds - continued

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

Special Revenue Fund - Water and Wastewater Project Grant Fund. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

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

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

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

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

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

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

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

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

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Debt Service Funds - continued

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

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Debt Service Funds - continued

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

Debt Service Fund - UNM Health Sciences. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

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

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

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

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Basis of Presentation - Fund Accounting - continued***

Enterprise Funds - continued

Enterprise Fund - Primary Care Capital Fund - continued. for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (see Note 12).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus and Basis of Accounting*

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2005, was $23,791,613.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ ***Measurement Focus and Basis of Accounting - continued***

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

♦ ***Cash and Cash Equivalents***

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

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

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

♦ ***Securities***

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Loans***

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

♦ ***Allowance for Loan Losses***

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. The Authority has not experienced any losses on its loan portfolio.

♦ ***Restricted Assets***

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

♦ ***Budgets and Budgetary Accounting***

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Capital Assets***

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $1,000 that significantly extend the useful life of an asset are capitalized. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

♦ ***Income Taxes***

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

♦ ***Compensated Absences***

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

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

♦ ***Cash Flows***

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Bond Discounts, Premiums and Issuance Costs***
In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

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

♦ ***Net Assets***
The government-wide and business type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

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

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

Unrestricted assets represent liquid assets.

♦ ***Use of Estimates***
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Interfund and Interagency Transactions***

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

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE*

Funds held for others and short-term investments are held at the trustees in the names of the applicable government entity and the Authority. The repurchase agreements are overnight only. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	163,405,760	163,405,760
Money market accounts invested in American Performance U.S. Treasury Fund		88,049,119	88,049,002
Repurchase agreements		7,169,586	7,169,586
Wells Fargo operating accounts		106,734	84,745
	$	258,731,199	258,709,093
Agency Fund:			
Money market accounts invested in FNMA	$	41,644,552	41,644,552
Money market accounts invested in American Performance U.S. Treasury Fund		1,539,633	1,539,633
Money market accounts invested in Citigroup U.S. Treasury Fund		593,358,611	593,358,611
State Treasurer Repurchase Agreement		26,405,837	26,405,837
	$	662,948,633	662,948,633

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

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

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

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its collateral securities that are in the possession of an outside party. The Authority's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in the Authority's name.

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES*

Loan receivable balances consist of the following at June 30, 2005:

Enterprise funds:		
Public Project Revolving Loan Fund	$	436,127,272
Allowance for loan losses		(396,353)
		435,730,919
Primary Care Capital Fund		5,353,237
Drinking Water State Revolving Loan Fund		16,812,533
Behavioral Health Fund		460,865
	$	458,357,554

♦ ***Public Project Revolving Loan Fund***

The Public Project Revolving Loan Fund loans receivable balance at June 30, 2005 is $436,127,272 and consists of loans made to various entities.

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

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	46,233,909	14,437,791	60,661,700
July 1, 2006 to maturity		389,893,363	123,486,152	513,379,515
	$	436,127,272	137,913,943	574,041,215

♦ ***Primary Care Capital Fund***

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

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	407,477	153,176	560,653
July 1, 2006 to maturity		4,945,760	899,217	5,844,977
	$	5,353,237	1,052,393	6,405,630

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ ***Primary Care Capital Fund - continued***

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

♦ ***Drinking Water State Revolving Loan Fund***

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

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	991,630	354,167	1,345,797
July 1, 2006 to maturity		15,820,903	2,614,154	18,435,057
	$	16,812,533	2,968,321	19,780,854

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

♦ ***Behavioral Health Capital Fund***

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

		Principal	Interest	Total
July 1, 2005 to June 30, 2006	$	29,495	12,674	42,169
July 1, 2006 to maturity		431,370	81,291	512,661
	$	460,865	93,965	554,830

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

4. *SECURITIES*

At June 30, 2005, securities for the Public Project Revolving Fund (PPRF) consisted of $12,018,362 of Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B and 2003B); $11,281 of Jemez Springs Bonds; and $732,020 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resources Bonds have interest rates ranging from 3% to 5.6%, with final maturity on May 1, 2018. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45%, with a final maturity on May 1, 2008. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19%, with final maturity on May 1, 2008. The securities are carried at cost, which approximates market value.

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

		Principal	Interest	Total	Weighted Average Maturity
July 1, 2005 to June 30, 2006	$	1,056,286	593,939	1,650,225	2.74
July 1, 2006 to maturity		11,705,377	3,434,023	15,139,400	379.60
	$	12,761,663	4,027,962	16,789,625	382.34

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in The Authority's name. The Authority's investments in securities listed above are not collateralized.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS*

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation. Interfund receivables and payables as of June 30, 2005, consist of the following:

	Due From Other Funds	Due To Other Funds
Governmental Funds:		
Water and Wastewater Grant	$ 53,573	-
Water Project Fund	19,850	-
Emergency Drought Relief	2,867	-
Water Planning Grant	13,981	-
Economic Development	375,093	-
Metro Court Financing Fund	1,275,482	-
Total Governmental Funds	1,740,846	-
Enterprise Funds:		
Drinking Water Fund	46,284	-
Public Project Revolving Fund	238,986	-
GRIP Fund	30,692	-
Child Care Facility Revolving Fund	3,752	-
Public Project Revolving Fund	-	1,275,482
Operating Fund	-	785,078
Total Enterprise Funds	319,714	2,060,560
Total All Funds	$ 2,060,560	2,060,560

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Transfers between funds for the year ended June 30, 2005 are as follows:

		Transfers In	Transfers Out	Net Transfers
Governmental Funds:				
UNM Health Sciences	$	140,761	140,761	-
Metro Court Financing Fund		8,511,003	8,457,697	53,306
Metro Court DS Fund		3,424,358	1,160,483	2,263,875
State Building Program Cigarette Tax		3,071,505	3,737,966	(666,461)
Water and Waste Water Project Grant Fund		800	50,155	(49,355)
Water Project Fund		-	57,870	(57,870)
Emergency Drought Relief		57,870	-	57,870
Economic Development		488	-	488
Water Planning Grant		-	13,053	(13,053)
Total Governmental Funds		15,206,785	13,617,985	1,588,800
Enterprise Funds:				
Operating Fund		4,025,892	3,283,131	742,761
Drinking Water Revolving Loan Fund		7,313,470	127,367	7,186,103
Primary Care Revolving Fund		1,913	-	1,913
Public Project Revolving Fund		646,448,958	655,968,535	(9,519,577)
Total Enterprise Funds		657,790,233	659,379,033	(1,588,800)
Total All Funds	$	672,997,018	672,997,018	-

The following Enterprise Fund owed the following amounts to other state agencies at June 30, 2005:

The Drinking Water Revolving Loan Fund owed $579,416 to the Environment Department for technical set-asides.

6. *TRANSFERS TO OTHER STATE AGENCIES*

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2005:

The UNM Health Sciences transferred $43,734,149 in program fund requests to the entity.

The Workers' Compensation Financing Fund transferred $738,571 to rebate excess debt service funds.

The Metro Court Financing Fund transferred $1,728,888 to rebate excess debt service funds.

The State Building Purchase Fund transferred $4,666,706 in program fund requests to various entities.

The State Building Program Cigarette Tax transferred $94,150 for debt service payments.

The following enterprise fund made the following transfer to other state agencies during the year ended June 30, 2005:

The Drinking Water Revolving Loan Fund transferred $2,569,960 to the New Mexico Environment Department for technical assistance.

7. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	271,609	138,444	(150,614)	259,439
Accumulated depreciation		(225,586)	(37,978)	142,328	(121,236)
Total		46,023	100,466	(8,286)	138,203

7. *CAPITAL ASSETS - continued*

Enterprise Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Leasehold improvements	$	29,113	2,934	(29,113)	2,934
Accumulated depreciation		(29,113)	(419)	29,113	(419)
Total		-	2,515	-	2,515
Net total	$	46,023	102,981	8,286	140,718

Depreciation expense was $19,868 in the Operating Fund, $13,106 in the Public Project Revolving Fund, $7,253 in the Drinking Water Revolving Loan Fund, and $5,526 in the GRIP Administrative Fund for the year ended June 30, 2005.

Governmental Funds		Balance June 30, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Depreciable assets:					
Furniture, fixtures and equipment at historical cost	$	34,038	116,462	(5,371)	145,129
Accumulated depreciation		(11,028)	(19,477)	1,829	(28,676)
Total		23,010	96,985	(3,542)	116,453
Leasehold improvements		9,725	2,747	(9,725)	2,747
Accumulated depreciation		(9,725)	(392)	9,725	(392)
Total		-	2,355	-	2,355
Net total	$	23,010	99,340	3,542	118,808

7. *CAPITAL ASSETS - continued*

Depreciation expense was $7,973 in the Water and Wastewater Project Grant Fund, $7,930 in the Water Project Fund, $2,445 in the Emergency Drought Water Program Fund, $3,076 in the Water and Wastewater Planning Grant Fund and $1,624 in the Economic Development Fund for the year ended June 30, 2005.

8. *BONDS PAYABLE*

Bonds outstanding as of June 30, 2005, for the Authority's enterprise funds consist of the following:

Public Project Revolving Funds (PPRF)

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

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

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

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

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

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

8. *BONDS PAYABLE - continued*

Bonds outstanding as of June 30, 2005, to be paid out of the Authority's debt service funds consist of the following:

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

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

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

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

8. BONDS PAYABLE - continued

Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

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

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 19965B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5%to 6.3%

8. *BONDS PAYABLE - continued*

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

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

8. *BONDS PAYABLE - continued*

Bonds payable and related premium/discount balances consist of the following at June 30, 2005

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1997A	$	5,870,000	4.25 - 5.00	6/1/2017
PPRF 1999A, B, C and D		14,370,000	3.30 - 6.30	6/1/2018
PPRF 2000A		2,215,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		12,985,000	4.35 - 5.60	6/1/2030
PPRF 2002A		33,080,000	2.00 - 5.00	6/1/2026
PPRF 2003A		34,590,000	2.00 - 4.75	6/1/2032
PPRF 2003B		25,570,000	2.00 - 5.00	6/1/2021
PPRF 2004A		39,975,000	1.125 - 5.00	6/1/2031
PPRF 2004B		47,575,000	3.00 - 5.125	6/1/2033
PPRF 2004C		165,280,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D		56,510,000	3.05 - 5.00	Various
		438,020,000		
Bond premium and discount, net on enterprise funds		21,785,324		
Total	$	459,805,324		

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service funds:				
UNM Health Sciences	$	34,275,000	2.00 - 5.00	6/30/2019
UNM Health Sciences 2004B		10,000,000	2.10 - 5.50	6/30/2019
Workers' Compensation Financing Fund		3,135,000	5.00 - 5.60	3/1/2017
Metro Court		46,325,000	5.50 - 5.80	2025
State Capitol Improvement Financing Fund		6,990,000	7.00	3/15/2015
State Building Purchase Fund		30,170,000	4.00 - 5.00	6/1/2021
COP-Equipment Loan Fund Series 94A		-	4.55 - 6.45	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B		631,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A		110,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B		529,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond		600,000	3.95 - 5.25	6/1/2006
		132,765,000		

8. *BONDS PAYABLE - continued*

		Amount
Bond premium and discount, net on Debt Service Funds		2,163,465
Total	$	134,928,465

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2006	$	35,377,000	26,625,398	62,002,398
2007		33,027,000	25,382,569	58,409,569
2008		30,926,000	24,197,200	55,123,200
2009		32,699,000	22,935,717	55,634,717
2010		33,746,000	21,563,456	55,309,456
2011 - 2015		188,591,365	65,133,965	253,725,330
2016 - 2020		136,345,635	44,252,171	180,597,806
2021 - 2025		73,013,000	13,843,012	86,856,012
2026 - 2030		6,815,000	1,173,570	7,988,570
2031 - 2033		245,000	83,369	1,113,369
Total	$	570,785,000	245,190,427	815,975,427

The bonds payable activity for the year is as follows:

		Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
Enterprise Funds	$	251,961,838	227,945,000	41,886,838	438,020,000
Debt Service Funds		139,178,000	10,000,000	16,413,000	132,765,000
Total	$	391,139,838	237,945,000	58,299,838	570,785,000

The amount of bonds payable due within one year is $35,377,000.

8. *BONDS PAYABLE - continued*

The following bonds were issued by the Authority in an agency capacity and are not included in the Authority's financial statements (see Note 12):

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation, Series 2004A, Revenue Bonds. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation, Series 2004B, Refunding Revenue Bonds. The Series 2004B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation, Series 2004C, Refunding Revenue Bonds. The Series 2004C Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

9. *OPERATING LEASE COMMITMENT*

The Authority is committed under various lease agreements for office space and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2005 amounted to approximately $207,800.

9. *OPERATING LEASE COMMITMENT - continued*

Future minimum lease payments for these leases are as follows:

Years ending June 30:		
2006	$	275,748
2007		275,748
2008		273,832
2009		270,000
2010		202,500
2011 and thereafter		-
	$	1,292,828

10. *RETIREMENT PLAN*

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $204,975, $153,937 and $99,057 for the years ended June 30, 2005, 2004 and 2003, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2005, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

10. *RETIREMENT PLAN - continued*

Statement of Fiduciary Net Assets

Assets:		
Cash	$	20,331
Self-directed accounts (cash and investments)		835,716
Participant loan receivable		33,914
Total assets	$	889,961
Net assets:		
Pension plan participants' benefits	$	889,961

Statement of Changes in Net Assets

Additions:		
Investment earnings	$	57,412
Employer contributions		204,975
Employee contributions		61,693
Total additions		324,080
Deductions:		
Distributions to participants		60,442
Investment expenses		7,168
Total deductions		67,610
Change in net assets		256,459
Net assets - beginning		633,492
Net assets - ending	$	889,961

10. *RETIREMENT PLAN - continued*

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code to its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2005 were $11,007.

11. *COMPENSATED ABSENCES*

During the year ended June 30, 2005, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
$	152,658	75,676	96,056	132,278

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

12. *AGENCY TRANSACTIONS*

Bond Issues

The Authority, on behalf of the New Mexico Department of Transportation (NMDOT), issued $700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A in May 2004. The gross proceeds to the Authority were $738,787,815, including $43,556,815 of an original issue premium. The cost of issuance including underwriter fees was $6,368,367. The Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and the NMDOT has determined to be necessary or desirable.

12. AGENCY TRANSACTIONS - continued

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 3.8%to 5.25%per annum is payable semi-annually on June 15 and December 15 through the year 2024.

The Authority, on behalf of the NMDOT, issued $237,950,000 and $200,000,000 (Authority) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C in May 2004. The gross proceeds to the Authority for both issuances were $451,069,205, including $16,347,187 of an original issue premium. The cost of issuance including underwriter fees was $4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The $237,950,000 Series 2004B Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the Authority and the Commission.

The NMDOT is responsible for the Authority issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 2%to 5%per annum is payable semi-annually on June 15 and December 15 through the year 2014.

The Series 2004C Bonds are special, limited obligations of the NMDOT payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C Bonds or which may hereafter be issued through the Authority. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

The Authority is responsible for its issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15 with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is fixed at 3.393%based on a swap agreement in place at June 30, 2004.

12. *AGENCY TRANSACTIONS - continued*

For the year ended June 30, 2005, the Authority recorded $341,731 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2005, the Authority had $662,948,633 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

Refunding

The Authority, on behalf of the NMDOT, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. $381,835,000 of the bonds outstanding was considered defeased as of June 30, 2004.

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

Objective of the swaps. In April of 2004, the New Mexico Finance Authority (the Authority) entered into two forward starting swaps on behalf of NMDOT with two counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of Governor Richardson's Investment Partnership (GRIP) which is a $1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between $175 million and $200 million in cash, which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P. Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072%, based on an amortizing notional schedule

12. *AGENCY TRANSACTIONS - continued*

State Transportation Revenue Bonds, Series 2006 - continued

with a combined $220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair value. As of June 30, 2005, the swaps had a negative fair value of $33,840,224 without the option. The options had a negative value of $11,128,234 in isolation of the swaps; thus the swaps including the options had a total negative value of $44,968,458. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial case reserves which will mitigate this risk by generating variable rate income.

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3

Objective of the swaps. In April of 2004, the Authority entered into three swaps on behalf of NMDOT with three counterparties to synthetically refund outstanding Bonds which provided the Authority with present value savings of $11,524,206, or 3.02% of the Refunded Bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate

12. *AGENCY TRANSACTIONS - continued*

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

bonds at the time of issuance. In addition, through this structure the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swaps was to effectively change the Authority's interest rate on the bonds to a fixed rate.

Terms. The swaps were executed with Goldman Sachs Mitsui Marine Derivative (Goldman), Lehman Brothers Derivative Products, Inc. (Lehman) and Royal Bank of Canada (RBC) at respective initial amortizing notional amount of $50,000,000, $50,000,000 and $100,000,000. The counterparties were, at the trade date, rated AA+/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's, respectively. All three swaps commenced on May 20, 2004, and will mature on June 15, 2024. Under the swaps, the Authority pays a fixed rate of 3.934% and receives a variable rate computed as the BMA index until June 15, 2006, on which date the variable interest rate received will switch to 68% of the one month London Interbank Offered Rate (LIBOR) until maturity. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair value. As of June 30, 2005, the Lehman swap and Goldman swap each had a negative fair value of $5,157,441, while the RBC swap had a negative value of $10,314,882. The total negative fair value on all the swaps was $20,629,764. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. After June 15, 2006, the Authority will be exposed to tax risk as reflected by the relationship between the rate paid on the outstanding bonds and 68% of one month LIBOR the rate received on the swap. Tax risk is a form of basis risk where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events.

13. SUBSEQUENT EVENTS

After June 30, 2005, the Authority issued the following PPRF Direct Loans, Planning Fund Grants, Water Project Fund/Water Trust Board Grants and Water Wastewater Grants:

	Closing Date		Amount
PPRF Cash Loans:			
City of Bloomfield	7/1/2005	$	216,218
Farmington Municipal Schools	7/1/2005		1,000,000
Lordsburg Municipal Schools	7/15/2005		1,500,000
New Mexico Junior College	7/15/2005		4,589,369
City of Carlsbad	7/19/2005		1,000,000
Dexter Consolidated Schools	8/19/2005		500,000
Bent Fire Department (Interim)	9/2/2005		78,804
Otero County, La Luz Fire Department (Interim)	9/2/2005		187,778
Town of Estancia	9/9/2005		125,339
Town of Elida	9/16/2005		22,500
Vaughn Fire Department (Interim)	9/16/2005		138,889
Truth or Consequences Municipal Schools	9/23/2005		1,750,000
Tierra y Montes Soil and Water	9/23/2005		207,590
Torrance County District 5 Fire Department	9/23/2005		544,537
Tularosa Village	9/23/2005		311,112
Village of Dora (Interim)	9/23/2005		126,550
Sierra County Lakeshore Fire Department (Interim)	9/30/2005		86,000
		$	12,384,686
Planning Grant:			
Quemado Lake Water Association	9/23/2005	$	22,500
		$	22,500
Water Project Fund/Water Trust Board:			
Ute Creek Soil and Water	8/26/2005	$	500,000
		$	500,000
Water Wastewater Grants:			
Villanueva MDWCA	7/1/2005	$	90,000
Ramah Navaho	7/1/2005		345,600
La Bajada Comm Ditch	7/15/2005		87,300
Torreon Chapter Navajo	7/22/2005		400,000
Picuris Pueblo	7/29/2005		108,000
Pecan Park MDWCA	8/26/2005		400,000
Fambrough MDWCA	8/26/2005		396,945
Town of Mesilla	8/26/2005		400,000
		$	2,227,845

13. *SUBSEQUENT EVENTS - continued*

	Closing Date		Amount
PPRF Revenue Bonds Series 2005A	8/1/2005	$	19,015,000
		$	19,015,000
PPRF Revenue Bonds Series 2005B	8/1/2005	$	13,500,000
		$	13,500,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005C	4/5/2005	$	50,395,000
		$	50,395,000
Taxable Subordinate Lien PPRF Refunding Revenue Bonds Series 2005D	4/5/2005	$	8,660,000
		$	8,660,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005E	8/30/2005	$	23,630,000
		$	23,630,000

Energy Efficiency and Renewable Energy Bonding Fund. House Bill 32 created the Energy Efficiency and Renewable Energy Bonding Fund at the Authority. The Authority would issue bonds based on projected savings and from a $200,000 per month allocation from the General Fund to the Authority. The proceeds from the bonds would be used to pay for energy efficient improvements at state-owned buildings or public schools. The Authority is authorized to issue up to $20 million in bonds for this purpose.

14. *RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND*

The Behavioral Health Capital Fund was created by legislation in 2004 by Chapter 6, Article 26-4. The fund is a revolving fund consisting of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund.

The purpose of the fund is to make loans to eligible entities to acquire, construct, renovate or improve capital projects. Eligible entities are defined as nonprofit behavioral health facilities with assets totaling less than $10,000,000, are 501(c)(3) nonprofit corporations for federal income tax purposes and serve primarily sick and indigent patients.

14. *RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND - continued*

The Authority administers the fund in conjunction with the New Mexico Department of Health pursuant to the provisions of the Behavioral Health Capital Funding Act (6-26-1 NMSA 1978). The Authority is responsible for all financial duties of the program, including administering the fund. The Department of Health is responsible for defining sick and medically indigent persons for the purpose of determining eligible facilities, establishing priorities for loans and determining the appropriateness of a capital project.

In prior year audited financial statements, the Behavioral Health Capital Fund was reported as a governmental activity. Based on the purpose and administration of the fund, this fund has been reclassified to an enterprise fund in the current year financial statements.

15. *DEFICIT FUND / NET ASSETS*

There is a deficit fund balance in the Economic Development Fund of $381,499. The Child Care Revolving Loan Fund has a deficit of $8,279. The operating fund will cover the deficits in these funds.

16. *PRIOR PERIOD RESTATEMENTS*

In the prior year, the bonds payable and loans receivable in the Public Project Revolving Funds were overstated by $13,435,000 and $11,421,000, respectively. The overstatement was a result of the failure to properly record the transfer of debt and associated loans to the City of Santa Fe. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $2,014,000.

Additionally, two bonds payable in the Public Project Revolving Funds were overstated by $485,000 and $714,877, respectively, due to unrecorded principal payments. The correction of this error resulted in an increase in fund balance as of June 30, 2004, of $1,199,877.

In prior years, loans receivable in the Equipment Loan Fund were not recorded on the books of the Authority. The addition of the loans receivable resulted in an increase in fund balance as of June 30, 2004, of $1,015,000.

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2005

		Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
ASSETS:								
Cash and cash equivalents	$	-	287,803	-	360,589	1,415,962	635,892	2,700,246
Receivables:								
Tax revenue receivable		-	-	303,373	83,065	-	4,877	391,315
Interest receivable		-	-	18,054	-	-	-	18,054
Loans receivable		-	-	1,015,000	-	-	-	1,015,000
		-	287,803	1,336,427	443,654	1,415,962	640,769	4,124,615
Restricted assets:								
Cash and cash equivalents held for others by trustee:								
Debt service		-	-	30,623	-	-	-	30,623
Bond reserve		-	-	-	-	-	197,963	197,963
Expense fund		-	-	-	-	-	-	-
Program - grant proceeds for other state agencies		-	-	-	-	-	-	-
Program - bond proceeds		-	-	-	-	-	361,900	361,900
		-	-	30,623	-	-	559,863	590,486
	$	-	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

AS OF JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
LIABILITIES AND FUND BALANCES:							
LIABILITIES:							
Accounts payable and accrued liabilities	$ 6,406	119	-	80,263	551	-	87,339
Debt service payable	-		-	-	-	-	-
Notes payable	-	-	-	-	-	-	-
Funds held for others	-	-	-	-	-	-	-
Due to other state agencies	-	-	-	-	-	-	-
Due to other funds	375,093	2,867	-	-	13,981	-	391,941
TOTAL LIABILITIES	381,499	2,986	-	80,263	14,532	-	479,280
FUND BALANCES:							
Fund balances (deficit) -							-
reserved for:							-
Debt service	-	-	1,367,050	363,391	-	1,200,632	2,931,073
Special revenue funds	(381,499)	284,817	-	-	1,401,430	-	1,304,748
TOTAL FUND BALANCES	(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821
TOTAL LIABILITIES AND FUND BALANCES	$ -	287,803	1,367,050	443,654	1,415,962	1,200,632	4,715,101

YEAR ENDED JUNE 30, 2005

	Economic Development Fund	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
REVENUE:							
Tax revenue	$ -	-	713,056	-	-	-	713,056
Grant revenue	-	-	-	-	-	-	-
Interest on loans	-	-	-	-	-	-	-
Interest on investments	-	9,621	-	6,508	33,670	39,495	89,294
Other revenue	-	-	10,032	-	-	-	10,032
TOTAL REVENUE	-	9,621	723,088	6,508	33,670	39,495	812,382
EXPENDITURES:							
Current:							
Administrative fee	-	-	-	18,350	-	-	18,350
Professional services	190,362	3,453	-	-	41,589	1,631	237,035
Salaries and fringe benefits	48,937	(1,646)	-	-	17,623	-	64,914
In-state travel	1,554	(327)			846		2,073
Out-of-state travel	4,211		-	-	66	-	4,277
Maintenance and repairs	1,078	117	-	-	795	-	1,990
Operating costs	15,707	3,840	-	-	8,567	-	28,114
Grant expense	-	213,300	-	-	348,432	-	561,732
Capital outlay	23,888	20,849	-	-	22,281	-	67,018
Debt service:							
Principal payments	-	-	618,296	465,000	-	175,000	1,258,296
Interest expense	-	-	84,187	513,800	-	174,628	772,615
Bond issuance costs	-	-	-	-	-	-	-
TOTAL EXPENDITURES	285,737	239,586	702,483	997,150	440,199	351,259	3,016,414
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(285,737)	(229,965)	20,605	(990,642)	(406,529)	(311,764)	(2,204,032)

YEAR ENDED JUNE 30, 2005

		Economic Development	Emergency Drought Water Program	Equipment Loan Fund	State Capitol Improvement Financing Fund	Water and Wastewater Planning Grant Fund	Workers' Compensation Financing Fund	Total
OTHER FINANCING SOURCES (USES):								
Bond proceeds	$	-	-	-	-	-	-	-
State General Fund appropriations		-	-	85,965	995,913	-	1,088,503	2,170,381
Transfers (to) from other funds		488	57,870	-	-	(13,053)	-	45,305
Transfers to other state agencies		-	-	-	-	-	(738,571)	(738,571)
TOTAL OTHER FINANCING SOURCES (USES)		488	57,870	85,965	995,913	(13,053)	349,932	1,477,115
NET CHANGE IN FUND BALANCE		(285,249)	(172,095)	106,570	5,271	(419,582)	38,168	(726,917)
FUND BALANCE, June 30, 2004		(96,250)	456,912	245,480	358,120	1,821,012	1,162,464	3,947,738
PRIOR PERIOD ADJUSTMENT		-	-	1,015,000	-	-	-	1,015,000
FUND BALANCES, June 30, 2004, adjusted		(96,250)	456,912	1,260,480	358,120	1,821,012	1,162,464	4,962,738
FUND BALANCE, June 30, 2005	$	(381,499)	284,817	1,367,050	363,391	1,401,430	1,200,632	4,235,821

SUPPLEMENTAL SCHEDULES

Schedule 1 - Supplemental Schedule of Pledged Collateral

YEAR ENDED JUNE 30, 2005

	Wells Fargo (Santa Fe)	Bank of America (Charlotte)	HSBC New York (New York)	Total
Bank accounts:				
Operating account - checking	$ 84,745	-	-	84,745
Wire transfer account	-	-	-	-
Repurchase agreements	-	3,889,896	3,279,691	7,169,587
Total amount of deposits	84,745	3,889,896	3,279,691	7,254,332
FDIC coverage	84,745	-	-	84,745
Total uninsured public funds	-	3,889,896	3,279,691	7,169,587
Collateral requirement @102%	-	3,967,694	3,345,285	7,312,979
Pledges and securities:				
FNMA, matures January 1, 2032				
Held at Wells Fargo, San Francisco, CA				
CUSIP 31385H2K9				
Par $106,894				
Rated by Moody's "AAA"	109,728	-	-	109,728
UST Note, matures November 15, 2005				
Held at Wells Fargo, Charlotte, NC				
CUSIP 912827V82				
Par $4,400,000	-	4,441,250	-	4,441,250
UST Note, matures August 15, 2007				
Held at JP Morgan Chase, New York, NY				
CUSIP 9128273E0				
Par $3,180,000	-	-	3,412,273	3,412,273
Over/(under) secured	$ 109,728	473,556	66,988	650,272

Pledged collateral amounts are in compliance with the collateral requirement of 102%

Schedule 2 - Agency Funds - Schedule of Changes in Assets and Liabilities

YEAR ENDED JUNE 30, 2005

		Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
DEPARTMENT OF TRANSPORTATION					
ASSETS:					
Cash and investments	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL ASSETS	$	-	2,157,505,359	1,494,556,726	662,948,633
LIABILITIES:					
Deposits held in trust for others	$	-	2,157,505,359	1,494,556,726	662,948,633
TOTAL LIABILITIES	$	-	2,157,505,359	1,494,556,726	662,948,633
		-	-	-	-

SINGLE AUDIT

YEAR ENDED JUNE 30, 2005

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Environmental Protection Agency:		
Capitalization Grants for Drinking Water		
State Revolving Funds	66.648	$ 2,980,318
Total EPA		$ 2,980,318
Funds passed through to sub-receipients		$ 2,569,690

Loans funded	Original Balance	Balance at June 30, 2005
Revolving loans		
Loans funded in previous years	$ 21,162,361	16,812,533
Total loans funded	$ 21,162,361	16,812,533

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

GENERAL

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Authority.

BASIS OF ACCOUNTING

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Authority's general purpose financial statements.

Reconciliation to Financial Statements (page 25)

Transfers to other state agencies	$	2,569,960
Total non-interest expense		410,358
Total EPA expenditures	$	2,980,318

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

MEYNERS + COMPANY, LLC
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An Independent Member of the BDO Seidman Alliance

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2005. We have also audited the financial statements of each of the Authority's nonmajor governmental funds presented as supplementary information in the combining fund financial statements as of and for the year ended June 30, 2005, and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompany schedule of findings and questioned costs as items 05-01, 05-02 and 05-12. We noted other matters involving the internal control over financial reporting that are required to be reported per section 12-6-5 NMSA 1978, and are detailed in findings 05-03 and 05-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the Authority, the State of New Mexico Office of the State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

December 9, 2005

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the financial statements of the New Mexico Finance Authority (Authority), with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Internal Control Over Compliance

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

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

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

Meyners + Company, LLC

December 9, 2005

YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

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

2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Authority.

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

4. There were no reportable conditions in the internal control over major programs disclosed by the Authority.

5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.

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

7. The program tested as a major program is:
   Capitalization Grants for Drinking Water State Revolving Fund
   CFDA Number 66.648

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

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

B. *FINDINGS - FINANCIAL STATEMENT AUDIT*

05-01 OBTAINING SIGNED AUDIT CONTRACT PRIOR TO COMMENCEMENT OF WORK (Reportable Condition)

Reportable Condition: The Authority did not have sufficient procedures to ensure that all necessary compliance requirements were met prior to allowing the audit to commence. The Office of the State Auditor noted that the Authority's auditors began work on the fiscal year 2005 audit without a State Auditor signed contract in place.

Criteria: Section 12-6-14, NMSA 1978, states "each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the state auditor. . ."

Cause: A contract was approved by the Authority's Board, signed by the Authority and the audit firm and submitted to the Office of the State Auditor. The State Auditor contacted the Authority and required that the contract be revised to comply with its requirements for including special provisions. Due to a change in personnel at the Authority and at the audit firm, the contract was not resubmitted to the Office of the State Auditor prior to the commencement of the audit.

Effect: The Authority is out of compliance with State Statute, the Procurement Code and State Auditor Rules. It is possible that the audit would not have been accepted by the Office of the State Auditor. However, the Office of the State Auditor has now signed the revised contract.

Auditors' Recommendation: The Authority should ensure that the audit contract is signed by the State Auditor before the commencement of the audit.

Agency Response: The Authority agrees with the finding as reported above. In the future, the CFO of the Authority will assume direct responsibility for obtaining all required signatures on the contract and delivering the contract to the Office of the State Auditor.

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES (Reportable Condition)

Reportable Condition: The Authority did not have formal procedures in place that require additional technical review of unusual or infrequent journal entries. Since the Authority keeps its books on a cash basis, many of these journal entries relate to accruals and are only recorded at year-end.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES - continued

Criteria: Unusual or infrequent journal entries inherently have a higher risk that the associated transaction could be posted incorrectly. Additionally, the Authority's transactions are more complex than that of many other organizations.

Cause: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2A, the Authority had not recognized the benefits of obtaining additional review of unusual or infrequent journal entries.

Effect: Significant adjusting journal entries were identified during the audit preparation process by the Authority and by the auditors, including prior period adjustments, adjustments to record fund activity for a fund that had been converted from a trust fund, new bond issue activities, etc.

Auditors' Recommendation: The Authority should establish procedures to require approval of significant or unusual journal entries, including obtaining appropriate advice from its outside advisors and independent auditors, as transactions occur throughout the year.

Agency Response: The Authority agrees with the finding as reported above. Additional reconciliation procedures were put in place during FY2005, which enabled Authority staff to identify necessary adjustments. Such procedures will be strengthened prior to the next audit. Complex transactions will be discussed with both our external and internal auditors to ensure proper accounting treatment.

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY

Reportable Condition: The Authority disposed of old and unused fixed assets during the current fiscal year. The Authority did not follow New Mexico State Auditor rules regarding the submission of a list of fixed asset deletions as required by State Auditor Rule.

Criteria: Per SAO 2.2.2.10 W, the Authority is subject to the State Auditor rules and should have notified the State Office prior to the disposal of fixed assets.

Cause: The Authority was not aware of the requirement to notify the State Auditor prior to the disposition of fixed assets.

Effect: The Authority is in violation of State Auditor rules.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY - continued

Recommendation: The Authority should adopt fixed asset disposition procedures that are consistent with State Auditor rules and other state laws and regulations.

Agency Response: The Authority disposed of most property by donating it to schools. No Authority property has ever been purchased through the State procurement system and belongs solely to the Authority. However, in the future all asset dispositions will be first cleared with the State Auditor's Office.

05-04 PERFORMING A PHYSICAL INVENTORY OF FIXED ASSETS

Condition: The Authority does not tag its fixed assets to identify its property.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 14, Section 3.4A, the tagging of fixed assets facilitates the taking of the annual inventory and identifies property belonging to the Authority.

Cause: Staff shortages have prevented the Authority from implementing this internal control procedure.

Effect: Fixed assets could be stolen, misplaced or disposed of without Authority knowledge.

Recommendation: The Authority should tag all of its fixed assets.

Agency Response: A new tagging system was implemented during FY2006. The new tagging system is known as the Dymo Letra Tag.

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY

Condition: The Authority has numerous transactions between funds and certain other state agencies. Some of this activity is not segregated from other receivables, payables and transfers within the Authority's general ledger.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY - continued

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 9, Section 9.1, segregation of all interfund and interagency activity makes it easier to reconcile this activity with the corresponding agency or fund. Interfund and interagency transactions must be presented separately in the Authority's audited financial statements so that such activity can be eliminated in the state wide financial statements.

Cause: The Authority has significant transactions with other agencies and between funds as part of its normal operating process. Segregation of these transactions has not been identified as a necessity.

Effect: Preparation of the statewide financial statements is more difficult when these accounts are not segregated.

Recommendation: All interfund and interagency activity should be separated in the general ledger with unique general ledger account codes.

Agency Response: The Authority will create unique general ledger codes in order to ensure that interfund and interagency activity can be easily identified.

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS

Condition: Fees and costs are collected from entities to which the Authority has loaned money. In certain cases, these fees and costs have been recorded as liabilities held for offering costs. While in some cases these liabilities may represent deferred revenue for amounts collected in advance, in other cases these liabilities could actually be restricted revenue.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 3B, Section 3, improper treatment of these fees and costs could result in an understatement of revenue and fund balances.

Cause: The Authority's current finance personnel have not yet had the opportunity to review the historical treatment of transactions to evaluate whether the historical treatment is consistent with governmental accounting standards.

Effect: Immaterial liabilities are included in the Authority's financial statements that are not supported by adequate documentation, resulting in an overstatement of liabilities.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS - continued

Recommendation: The treatment of the liabilities should be researched and a determination should be made as to whether these accounts are recorded properly in accordance with governmental accounting standards.

Agency Response: Accounting staff will complete a review and reconciliation during FY2006 to determine the correct disposition of any immaterial liabilities that exist and determine the proper accounting treatment of such liabilities.

05-07 CAPITALIZING BOND OFFERING COSTS

Condition: In reviewing expenditure activity, it was noted that certain bond-offering costs were recorded in professional fee and other expense accounts.

Criteria: The Government Accounting Standards Board (GASB) requires that bond offering costs for enterprise funds be capitalized and amortized over the life of the bond. For governmental fund types, theses costs should also be segregated in the general ledger for proper presentation in the Authority's full accrual-based financial statements.

Cause: On occasion, invoices for bond offering costs are received substantially after the bond has closed. As a result, these invoices are inadvertently charged to incorrect accounts.

Effect: Expenses could be overstated by the amount of unamortized bond offering costs.

Recommendation: All bond offering costs should be identified and charged to the appropriate general ledger account.

Agency Response: In prior periods, it was felt that one administrative account held at the trustee could be established for the purpose of paying bond offering costs. However, as the level of activity has increased at the Authority, separate accounts for each bond offering will be established for the purpose of tracking bond offering costs.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-08 RECORDING UNEMPLOYMENT INSURANCE EXPENSE

Condition: The Authority is self-insured for unemployment insurance. The Authority estimates and accrues the estimated unemployment insurance. The expense is charged to the various funds. The Authority has not experienced significant unemployment insurance claims. In the current fiscal year, there were no payments for unemployment claims. However, an expense was recorded for the estimated liability.

Criteria: Per DFA's *Model Accounting Practices,* Volume I, Chapter 6, Section 3, unemployment insurance expense is charged to programs when there is no unemployment insurance incurred.

Cause: The Authority has not reviewed their procedures for recording accruals due to staff shortage during the current fiscal year.

Effect: Accrued liabilities and expenses could be overstated.

Recommendation: A reasonable accrual for unemployment insurance is appropriate when self-insured. However, the reasonableness of the accrual should be reviewed and adjusted on an annual basis.

Agency Response: Accounting staff will review the accrual made for the purpose of recording unemployment insurance expense. It is probable that the accrual will be eliminated in favor of recording only actual expenses incurred.

05-09 CLOSING INACTIVE TRUST ACCOUNTS

Condition: The Authority has numerous trust accounts. Many of these trust accounts have no balances. Some of these accounts are related to loans that have been paid off.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 4, Section 4, proper internal control procedures would require that all inactive trust accounts be closed promptly.

Cause: The Authority does not actively monitor the status of trust accounts held at the trustee, Bank of Albuquerque, and relies on the trustee to identify accounts that should be closed.

B. *FINDINGS - FINANCIAL STATEMENT AUDIT - continued*

05-09 CLOSING INACTIVE TRUST ACCOUNTS - continued

Effect: Trust accounts that remain open after the related loan activity has ceased create a risk that individuals may access the account for fraudulent purposes or that activity is being recorded in an improper account

Recommendation: The Authority should review the status of trust accounts on a regular basis and take a more active role in initiating account closures.

Agency Response: The Authority will take a more active role in reviewing inactive trust accounts and discussing their closure with the trustee. However, it is important to note that these accounts may remain open during at least one fiscal year after activity has ceased in the account. These trustee accounts belong to the borrower, not the Authority.

05-10 CLEARING RECONCILING ITEMS

Condition: The Authority has immaterial reconciling items in its wire transfers account that date back to the prior fiscal year. The origin of the items is well documented by Authority staff, but the journal entry to record the items had not been completed as part of year-end closing.

Criteria: Per DFA's *Model Accounting Practices*, Volume I, Chapter 8, Section 3.2, reconciling items should be recorded timely to ensure accurate account balances.

Cause: The shortage of staff during the current fiscal year has resulted in certain immaterial adjusting entries not being recorded on a timely basis.

Effect: The bank account is overstated by the amount of the reconciling items.

Recommendation: Adjusting entries to the wire transfers account should be reviewed as part of the monthly bank reconciliation process and made on a timely basis.

Agency Response: Reconciling items will be more closely reviewed on a monthly basis to ensure that all items are cleared.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-11 ANNUAL AFFIRMATION OF CODE OF CONDUCT

Condition: The Authority had all employees sign a Code of Conduct policy in September/October 2004 due to a revision of the policy.

Criteria: Sound internal control procedures dictate that code of conduct and conflict of interest policies should be reviewed on a regular basis. Recent events in both corporate and government settings reflect the need to enhance awareness of and consent to code of conduct and conflict of interest policies.

Cause: Current events have increased the awareness of the importance of an annual review of these policies by all employees.

Effect: Failure to annually review and affirm code of conduct and conflict of interest policies could lead to lapses in employee compliance with such policies.

Recommendation: The Authority should require all employees to review and sign a code of conduct and a conflict of interest policy annually.

Agency Response: In discussions with the Human Resources Director, the affirmation of the Code of Conduct will be conducted on an annual basis. The policy will be reviewed with employees and they will sign off on a statement acknowledging review of the policy.

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS (Reportable Condition)

Condition: New Mexico Finance Authority did not file their fiscal year 05 financial statements on time to the State Auditor's office.

Criteria: Per section 2.2.2.9A(1)(f) of the State Auditor rulebook, state agency reports are due no later than December 15.

Cause: Due to turnover in personnel, the auditors did not have the report completed in time for management to review the financial statements.

Effect: Not in compliance with the State Auditor rulebook section 2.2.2.9A(1)(f).

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS - continued

Recommendation: The audit will begin earlier for FY06 to ensure meeting the State Auditor deadline.

Agency Response: Authority accounting staff will ensure that the outside auditor begins the audit earlier in FY 2006, provides accounting staff with a list of necessary documents and schedules prior to commencing the audit (at an earlier date than in FY 2005), and provides audit personnel with a sufficient level of expertise to conduct audit fieldwork.

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

None

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

Current Status - Cash Draw: The Authority is reimbursing participant loans with funds already drawn down until these funds have been exhausted.

Current Status - State Match Requirements: Resolved

An exit conference was held with the Authority on December 12, 2005. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

NEW MEXICO FINANCE AUTHORITY

William C. Sisneros, Executive Director
Jerome Trojan, Chief Operations Officer
Joe Gosline, Chief Financial Officer
James Jimenez, Audit Committee Chairman
Grace Romero, Finance Manager

MEYNERS +COMPANY, LLC

Reta Jones, Principal
Georgie Ortiz, Senior Audit Manager

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Independent Auditor.

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APPENDIX A-2

UNAUDITED COMBINED BALANCE SHEET AS OF JUNE 30, 2006 AND UNAUDITED COMBINED STATEMENT OF REVENUES AND EXPENDITURES FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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NEW MEXICO FINANCE AUTHORITY
Combined Balance Sheet
As of June 30, 2006

	Enterprise Funds	Debt Service Funds	Special Revenue Funds	NMFA TOTAL	DOT Funds	CONSOLIDATED FUND TOTALS
ASSETS						
Unrestricted Cash & Equivalents:						
Cash - Treasurer	$ 18,174,551	$ 6,600,623	$ 21,213,869	**$ 45,989,043**	-	**$ 45,989,043**
Cash - Money Market	73,727,339	3,184,156	1,149,054	**78,060,550**	$ 5,129,201	**143,189,751**
Individual Securities	2,438,598		17,070,188	**19,508,786**		**19,508,786**
Unrestricted Cash at Trustee	779,743	-	-	**779,743**	-	**779,743**
Total Unrestricted Cash & Equivalents	95,120,232	9,784,780	39,433,111	**144,338,122**	65,129,201	**209,467,323**
Restricted Cash & Equivalents:						
Trustee and Treasurer Accts	90,046,220	2,136,925	-	**92,183,146**	2,957,171	**95,140,317**
NMFA Debt Service held at STO	9,999,406	-		**9,999,406**		**9,999,406**
Repurchase Agreements	26,367,085	-	-	**26,367,085**	41,318,640	**67,685,725**
US Government Securities	-	-	-	**-**	294,642,816	**294,642,816**
Total Restricted Cash & Equivalents	126,412,711	2,136,925	-	**128,549,637**	338,918,627	**467,468,264**
TOTAL INVESTED CASH	**221,532,944**	**11,921,705**	**39,433,111**	**272,887,759**	**404,047,828**	**676,935,587**
Operating Accounts						
Cash - Checking	$ 106,906	$ -	$ -	**$ 106,906**	$ -	**$ 106,906**
Cash - Wire Transfers	122,540	-	-	**122,540**	-	**122,540**
Total Operating Accounts	229,446	-	-	229,446	-	229,446
Receivables:						
Funds Receivable	950,642	-	-	**950,642**	-	**950,642**
Accounts Receivable	222,169	779	-	**222,948**	-	**222,948**
Loans Receivable	576,640,024	669,000	-	**577,309,024**	-	**577,309,024**
Loans Receivable for Collateralized Securities	11,705,377	-	-	**11,705,377**	-	**11,705,377**
Short Term Notes	2,000,000	-	-	**2,000,000**	-	**2,000,000**
Allowance for Doubtful Accounts	(396,352)	-	-	**(396,352)**	-	**(396,352)**
Contract for Service	(352,709)			**(352,709)**		**(352,709)**
Due From Other Agencies/Funds	-	-	-	**-**	-	**-**
Total Receivables	590,769,150	669,779	-	**591,438,930**	-	**591,438,930**
Other Assets:						
Deferred Issue Costs	5,834,247	2,514,182	-	**8,348,429**	-	**8,348,429**
Other Deposits and Prepaids	16,610	-	-	**16,610**	-	**16,610**
Cash - Primary Care Loan Fund	2,845,585	-	-	**2,845,585**	-	**2,845,585**
Funds Held in Escrow	60,166,010	-	-	**60,166,010**	-	**60,166,010**
Total Other Assets	68,862,452	2,514,182	-	**71,376,634**	-	**71,376,634**
Fixed Assets:						
Furniture, Fixtures & Equip	521,784	-	292,909	**814,694**	-	**814,694**
Leasehold Improvements	10,657	-	10,470	**21,127**	-	**21,127**
Accumulated Depreciation	(192,187)	-	(77,625)	**(269,812)**	-	**(269,812)**
Total Fixed Assets	340,254	-	225,754	**566,008**	-	**566,008**
Total Assets	**$ 881,734,246**	**$ 15,105,666**	**$ 39,658,865**	**$ 936,498,777**	**$ 404,047,828**	**$ 1,340,546,605**
LIABILITIES						
Current Liabilities:						
Debt Service Amounts Payable	$ 33,352,976	$ 29,754	$ -	**$ 33,382,731**	$ 44,275,811	**$ 77,658,542**
Debt Service Reserve	-			**-**		**-**
Fund Accounts Payable	1,104,606	641,360	749,409	**2,495,375**	-	**2,495,375**
Other Accounts Payable	-	-	-	**-**	-	**-**
Program Funds to be Provided	69,041,686	-	-	**69,041,686**	359,772,017	**428,813,703**
Accrued Payroll Expense	19,317	-	-	**19,317**	-	**19,317**
Employee Benefits Payable	1,392	-	-	**1,392**	-	**1,392**
Due To Other Funds	3	-	-	**3**	-	**3**
Deferred Revenue	-	-	-	**-**	-	**-**
Due To Trustee	-	-	-	**-**	-	**-**
Due To Other Agencies	4,294	-	-	**4,294**	-	**4,294**
Total Current Liabilities	103,524,275	671,114	749,409	**104,944,798**	404,047,828	**508,992,626**
Long Term Debt:						
Bonds Payable	577,348,000	123,519,000	-	**700,867,000**	-	**700,867,000**
Bond Premium/Discount	27,353,958	2,400,747	-	**29,754,705**	-	**29,754,705**
Other Long Term Debt	-	-	2,000,000	**2,000,000**	-	**2,000,000**
Total Long Term Debt	604,701,958	125,919,747	2,000,000	**732,621,705**	-	**732,621,705**
Total Liabilities	708,226,233	126,590,861	2,749,409	**837,566,503**	404,047,828	**1,241,614,331**
EQUITY						
Contributed Capital	-	-	-	**-**	-	**-**
Fund Balance - Reserved	154,301,901	(109,073,258)	48,842,220	**94,070,863**	-	**94,070,863**
Retained Earnings-Unreserved		-	-	**-**	-	**-**
Excess Revenue or (Expenditures)	19,206,112	(2,411,937)	(11,932,764)	**4,861,411**	-	**4,861,411**
Total Equity	173,508,013	(111,485,195)	36,909,456	**98,932,274**	-	**98,932,274**
Total Liabilities and Fund Balance	**$ 881,734,246**	**$ 15,105,666**	**$ 39,658,865**	**$ 936,498,777**	**$ 404,047,828**	**$ 1,340,546,605**

NEW MEXICO FINANCE AUTHORITY
Combined Statement of Revenues and Expenditures
For the fiscal year ended June 30, 2006

	Enterprise Funds	Debt Service Funds	Special Revenue Funds	NMFA TOTAL
REVENUES				
Appropriation Revenues	$ 26,465,819	$ 17,029,644	$ 1,125,998	**$ 44,621,461**
Interest Income	24,300,201	681,724	1,436,265	**26,418,190**
Administration Fee Revenue	3,363,560	-	-	**3,363,560**
Grant Revenue	1,068,930	-	845,680	**1,914,611**
Total Revenues	**55,198,511**	**17,711,368**	**3,407,943**	**76,317,822**
EXPENDITURES				
BUDGETED EXPENDITURES				
Personnel Services				
Salaries	1,430,271	-	228,802	**1,659,073**
Total Personnel Services	**1,430,271**	**-**	**228,802**	**1,659,073**
Employee Benefits				
Group Insurance	256,322	-	16,016	**272,338**
Retirement	252,988	-	34,320	**287,309**
FICA	106,927	-	17,503	**124,430**
Workers Comp	6,688	-	-	**6,688**
Unemployment Insurance	-	-	-	**-**
Total Employee Benefits	**622,925**	**-**	**67,840**	**690,765**
In-State Travel				
In-State Travel	36,912	-	10,266	**47,177**
Board Travel & Per Diem	8,544	-	8,260	**16,805**
Total In-State Travel	**45,456**	**-**	**18,526**	**63,982**
Office Supplies	63,220	-	21,314	**84,534**
Contractual Services				
Financial Advisor - Other	455,067	14,260	-	**469,327**
Legal Counsel-Bonds	646,431	-	-	**646,431**
Legal Counsel-Other Programs	615,974	10,175	139,011	**765,160**
Accounting-Audit (External)	40,096	-	7,002	**47,098**
Accounting-Other (Internal)	1,596	-	-	**1,596**
Trustee/Banking Fees	272,355	12,834	9,262	**294,451**
Temporary Services	36,360		16,586	**52,947**
Contracted Services	570,687	13,458	216,009	**800,155**
IT Support	27,558		24,395	**51,952**
Total Contractual Services	***2,666,124***	***50,728***	***412,265***	***3,129,117***
Operating Costs				
Repairs & Maintenance	23,917	-	4,634	**28,550**
Business Insurance	4,071	-	563	**4,634**
Recruitment	9,928	-	60	**9,988**
Advertising & Promotion	15,737	-	4,964	**20,701**
Reporting & Recording	1,944	-	1,053	**2,997**
Copying Cost	1,337	-	931	**2,268**
Postage/Overnight	7,891	-	2,425	**10,316**
Utilities	983	-	78	**1,061**
Office Rental	242,331	-	33,434	**275,765**
Equipment Rental	16,978	-	2,325	**19,303**
Telephone & Fax	60,137	-	15,317	**75,454**
Education & Training - Staff	43,037	-	7,178	**50,215**
Dues and Subscriptions	21,663	-	6,449	**28,113**
Entertainment	4,697	-	1,278	**5,975**
Hardware & Software	27,144	-	-	**27,144**
Total Operating Costs	***481,795***	**-**	***80,688***	***562,483***
Out-of State Travel	**29,381**	**-**	**6,059**	**35,440**
TOTAL BUDGETED EXPENDITURES	***5,339,171***	***50,728***	***835,494***	***6,225,394***
UNBUDGETED EXPENDITURES				
Bond/Loan interest Expense				
Bond Interest Expense	21,477,681	5,919,323	31,500	**27,428,504**
Loan Interest Expense	-	-	-	**-**
Total Bond/Loan interest Expense	***21,477,681***	***5,919,323***	***31,500***	***27,428,504***
Bond Issuance Expense	2,381,249	739,523	35,647	**3,156,420**
Other Fin use - Bond Premium	2,180,687			**2,180,687**
Grant Expense	533,548	-	14,033,874	**14,567,422**
Administrative Fee Expense	141,695	217,202	-	**358,897**
Depreciation Expense	71,177	-	48,558	**119,735**
Contract for Service Expense	352,709	-	-	**352,709**
TOTAL UNBUDGETED EXPENDITURES	**27,138,747**	**6,876,048**	**14,149,578**	**48,164,373**
Total Expenditures	**32,477,918**	**6,926,776**	**14,985,073**	**54,389,767**
Excess Revenues Over Expenditures	22,720,592	10,784,592	(11,577,130)	**21,928,055**
Operating Transfers In	486,255,824	4,822,348	4,437,385	**495,515,557**
Operating Transfers Out	486,277,320	4,539,368	4,698,869	**495,515,557**
Transfers To Other Agencies	3,492,985	13,479,509	94,150	**17,066,644**
Net Transfers	(3,514,480)	(13,196,530)	(355,634)	**(17,066,644)**
Excess (def) of Rev over Exp after other Financing	**$ 19,206,112**	**$ (2,411,937)**	**$ (11,932,764)**	**$ 4,861,411**

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 2007A Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the Series 2007A 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 Chairman, any Vice Chairman, Secretary, the Chief Executive Officer, 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, 2007.

"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 12 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 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;

(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 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; 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 successors 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., Standard & Poor's Ratings Services 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 Services.

"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.

<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.

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 __________________ 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 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 this 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.

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 2007A Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State

Generally

The State was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 60% (mornings) to 30% (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from two inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per diem and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the 12th fastest growing state, as the population increased 20.1% from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2%.

Most of this population growth is occurring in or near the large cities. There are four Metropolitan Statistical Areas (MSAs) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is in Doña Ana County; the Santa Fe MSA is in Santa Fe County; and the Farmington MSA is in San Juan County. The fastest growing counties in the state are Sandoval, Doña Ana, Bernalillo, Lincoln, Luna and San Juan.

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 2006.

State of New Mexico
Employment by Industry Group(1)
Second Quarter 2006

Industry	Employment
Agriculture, Forestry, Fishing & Hunting	11,366
Mining	18,556
Utilities	5,712
Construction	63,491
Manufacturing	37,160
Wholesale Trade	23,469
Retail Trade	94,562
Transportation and Warehousing	24,040
Information	17,099
Finance & Insurance	23,156
Real Estate & Rental & Leasing	11,449
Professional & Technical Services	48,541
Management of Companies & Enterprises	5,898
Administrative & Waste Services	48,331
Education Services	82,712
Health Care & Social Assistance	108,630
Arts, Entertainment & Recreation	18,987
Accommodation & Food Services	81,893
Other Services, Except Public Administration	22,584
Public Administration	60,048
Unclassified	563

(1) Employment is categorized using the North American Industry Classification System (NAICS).

Source: New Mexico Department of Labor, January 2007

State of New Mexico and United States
Wages and Salaries by NAICS Industry Sector
2004-05[1]
(Thousands of Dollars)

	New Mexico		United States	
	2004	2005	2004	2005
Farm Total	$ 173,241	$ 194,000	$ 19,726,000	$ 21,404,000
Non Farm Private				
Forestry, Fishing, Related Activities & Other	$ 80,514	$ 84,848	$ 17,097,000	$ 17,834,000
Mining	774,251	925,956	34,899,000	40,619,000
Utilities	225,430	236,934	40,799,000	41,640,000
Construction	1,640,616	1,863,377	293,245,000	318,769,000
Manufacturing	1,465,441	1,525,772	687,483,000	704,671,000
Wholesale Trade	897,298	951,869	305,747,000	323,006,000
Retail Trade	2,152,271	2,234,441	379,901,000	393,406,000
Transportation & Warehousing	733,371	759,820	172,392,000	178,612,000
Information	518,509	537,398	190,233,000	193,885,000
Finance & Insurance	946,305	995,867	422,078,000	448,207,000
Real Estate & Rental & Leasing	292,589	312,227	80,799,000	87,122,000
Professional & Technical Services	2,458,097	2,587,992	450,926,000	487,969,000
Management of Companies & Enterprises	237,951	272,303	136,851,000	149,019,000
Administrative & Waste Services	1,105,145	1,174,127	212,829,000	228,910,000
Educational Services	225,219	240,331	84,117,000	89,069,000
Health Care & Social Assistance	2,749,289	2,919,297	532,545,000	561,282,000
Arts, Entertainment & Recreation	149,517	156,511	56,380,000	57,402,000
Accommodation & Food Services	987,985	1,035,570	170,404,000	179,077,000
Other Services, Except Public Administration	779,618	810,065	169,737,000	173,942,000
Non Farm Government				
Government & Government Enterprises	$ 7,943,497	$ 8,267,490	$ 928,001,000	$ 963,451,000
Non Farm Total	$26,362,913	$27,892,195	$5,366,463,000	$5,637,892,000
TOTAL	$26,561,215	$28,144,547	$5,386,189,000	$5,659,296,000

[1] 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 2006

State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1996-2005

	Civilian Labor Force		Number Employed		Unemployment Rate		
Year	N.M.	U.S. (000s)	N.M.	U.S. (000s)	N.M.[1]	U.S.[1]	NM as % of U.S. Rate[2]
1996	812,862	133,944	751,826	126,708	7.5%	5.4%	139%
1997	822,627	136,297	768,596	129,558	6.6%	5.0%	132%
1998	835,879	137,673	783,661	131,464	6.2%	4.5%	138%
1999	839,988	139,368	793,052	133,488	5.6%	4.2%	133%
2000	852,293	142,583	810,024	136,891	5.0%	4.0%	125%
2001	863,682	143,734	821,003	136,934	4.9%	4.7%	104%
2002	875,631	144,863	827,303	136,485	5.5%	5.8%	95%
2003	893,118	146,510	840,422	137,736	5.9%	6.0%	98%
2004	914,538	147,401	862,422	139,252	5.7%	5.5%	104%
2005	935,888	149,320	886,724	141,730	5.3%	5.1%	104%

(1) Figures rounded to nearest tenth of a percent.
(2) Figures rounded to nearest whole percent.

Source: U.S. Department of Labor, Bureau of Labor Statistics October 2006

State of New Mexico and United States
Per Capita Personal Income
1996-2005[1]

	Per Capita Income			Annual % Change	
Year	New Mexico	U.S.	NM as % of U.S.[2]	New Mexico[3]	U.S.[3]
1996	19,029	24,175	79%	3.3%	4.8%
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77%	4.9%	6.1%
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,134	29,845	74%	5.2%	6.8%
2001	24,085	30,574	79%	8.8%	2.4%
2002	24,246	30,810	79%	0.7%	0.8%
2003	24,849	31,463	79%	2.5%	2.1%
2004	26,690	33,090	81%	7.4%	5.2%
2005	27,912	34,495	81%	4.6%	4.2%

(1) Revised state personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available State-level source data.
(2) Figures rounded to nearest whole percent.
(3) Figures rounded to nearest tenth of a percent.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, October 2006

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

[Form of Modrall, Sperling, Roehl, Harris & Sisk, P.A. Opinion]

New Mexico Finance Authority
207 Shelby Street
Santa Fe, New Mexico 87501

Bank of Albuquerque, N.A.
Trust Division
201 Third Street, Suite 1400
Albuquerque, New Mexico 87102

Re: New Mexico Finance Authority Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2007A

We have acted as bond 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 2007A in the aggregate principal amount of $34,010,000 (the "Series 2007A Bonds"). The Series 2007A Bonds are being issued for the purpose of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities ("Governmental Units") that will be or were used to finance certain Projects for such Governmental Units; (ii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007A Bonds; (iii) paying accrued interest; and (iv) paying costs incurred in connection with the issuance of the Series 2007A 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 2007A 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 Sixth Supplemental Indenture of Trust dated as of January 1, 2007 (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 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2007A Bonds or any other offering material relating to the Series 2007A 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 2007A

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 2007A in the aggregate principal amount of $34,010,000 (the "Series 2007A Bonds"). The Series 2007A Bonds are being issued for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities ("Governmental Units") that will be or were used to finance certain Projects for such Governmental Units ("Loans"); (ii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007A Bonds; (iii) paying accrued interest; and (iv) paying costs incurred in connection with the issuance of the Series 2007A Bonds.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2007A Bonds. The NMFA and the Government Units have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2007A Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007A Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and the Governmental Units with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2007A 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 2007A Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Under the laws of the State of New Mexico as enacted and construed on the date hereof, interest on the Series 2007A 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 2007A Bonds; and

(b) although we have rendered an opinion that interest on the Series 2007A 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 2007A 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 2007A 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 2007A Bonds. The Series 2007A 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 2007A Bond certificate will be issued for each maturity of the Series 2007A Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 2007A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007A 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 2007A Bonds, except in the event that use of the book-entry system for the Series 2007A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007A 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 2007A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007A 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 2007A 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 2007A 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 the Series 2007A 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 2007A 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 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007A Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry only 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 2007A Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2007A 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 2007A Bonds.

APPENDIX F

OTHER NMFA PROGRAMS AND PROJECTS

Workers' Compensation Administration Building Financing

In 1994, the Legislature authorized the NMFA to sell $6,000,000 in revenue bonds for the acquisition of land and site improvements to the land and the planning, design, construction, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided for the pledge to the NMFA for payment of the revenue bonds associated with the WCA project of a portion of the quarterly Workers' Compensation assessment paid to the State. In July 1995, the NMFA publicly sold $2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold $4,310,000 in long-term bonds to retire the outstanding bonds and to finance the construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

University of New Mexico Health Sciences Center Project

In 1993, the Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of $6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center. These bonds matured in July, 2006.

In 2003, the Legislature authorized the NMFA to issue up to $60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. In 2005, the Legislature authorized an additional $15 million of revenue bonds. NMFA is authorized to secure the additional bonds by a pledge of funds from the PPRF with a lien priority on the PPRF, as determined by the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA issued the first series of the bonds in an aggregate principal amount of $39,035,000 on April 1, 2004 and a second series of the bonds in an aggregate principal amount of $10,000,000 on September 22, 2004. On August 30, 2005, the NMFA issued the third series of the bonds in an aggregate principal amount of $23,630,000 and purchased these bonds using proceeds of its PPRF Subordinate Lien Revenue Bonds, Series 2005E.

Department of Health Projects

Also, in 2005, the Legislature authorized the NMFA to issue another series of revenue bonds secured by a separate distribution of cigarette tax receipts in an aggregate amount not to exceed $39,000,000 for improvements to the southern New Mexico rehabilitation center, the Las Vegas medical center, the Fort Bayard medical center and for purchasing land, building, designing and constructing and equipping a state laboratory facility in Bernalillo County for the New Mexico Department of Health.

Behavioral Health Care Capital Fund

The 2004 Legislature created the Behavioral Health Capital Fund to provide low-cost financing to non-profit behavioral health clinics for capital equipment and infrastructure projects. In 2005, the New Mexico Legislature authorized the NMFA to issue up to $2,500,000 secured by a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA to capitalize the NMFA's Behavioral Health Capital Fund.

Pursuant to the 2005 legislative authorization, the NMFA issued on February 28, 2006, $2,500,000 of taxable cigarette tax bonds which it placed privately with a New Mexico based financial institution.

Child Care Revolving Loan Fund

Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the NMFA with the Children Youth and Families Department to provide low-cost financing to licensed child care providers.

Statewide Economic Development Finance Act

With the passage of the Statewide Economic Development Finance Act ("SWEDFA"), the 2003 Legislature authorized the NMFA to issue taxable and tax-exempt bonds, make loans and provide loan and bond guarantees on behalf of private for-profit and not-for-profit entities. The 2005 Legislature appropriated $10 million to the Economic Development Revolving Fund authorized under SWEDFA from which the NMFA will buy portions of bank loans made to New Mexico businesses.

Primary Care Capital Fund

In 1994, a $5,000,000 revolving fund was created in the State treasury to be administered by the NMFA and from which loans and contracts for services would be provided to primary care health clinics and agencies in rural areas of the State and other areas with underserved healthcare needs. 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 pursuant to which the Department of Health will provide all required health-related services and the NMFA will administer the revolving fund. The NMFA and the Department of Health have adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded 13 primary care capital fund loans totaling $6,629,659.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to $1,585,000,000 in bonds for the purpose of financing state transportation projects. The NMFA sold $700,000,000 of its State Transportation Revenue Bonds (Senior Lien) Series 2004A, $237,950,000 of its State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004B and $200,000,000 of its Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C on April 30, 2004 for delivery on May 20, 2004. The Series 2004A bonds financed transportation projects of the State Department of Transportation. The Subordinate and Series 2005C bonds refunded and restructured the NMFA's outstanding Federal Highway Grant Anticipation Revenue Bonds, Series 1998A and Series 2001, and certain maturities of several issues of State Transportation Commission bonds, all of which were issued for the purposes of financing certain public highway projects in the State. The Bonds will be payable from State road fund and the State highway infrastructure fund.

On October 19, 2006, the NMFA issued $150,000,000 of its State Transportation Revenue Bonds (Senior Lien), Series 2006A, $40,085,000 of its State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B, $220,000,000 of its Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C and $50,400,000 of its Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable). The proceeds of the Series 2006A Bonds, the Series 2006B Bonds and the Series 2006C Bonds were used to provide funds for certain transportation projects authorized by the Legislature of the State that the New Mexico Department of Transportation has determined to be necessary or desirable. The proceeds of the Series 2006B Bonds also were used to refund and restructure certain outstanding bonds of the State Transportation Commission. The proceeds of the Series 2006D Bonds were used to provide funds for an escrow required to be established by the Joint Use Agreement between the Department and BNSF Railway Company.

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 was awarded approximately $75,500,000 in capitalization grants from the U.S. Environmental Protection Agency through September 30, 2006, approximately $67,200,000 of which is dedicated solely to the Drinking Water Revolving Loan Fund, and the NMFA has provided a total state match of approximately $15,100,000, all of which is deposited in the Drinking Water Revolving Loan Fund. As of September 30, 2006 the NMFA funded 23 loans totaling approximately $43,024,225. The DWRLF has binding commitments to fund four additional loans totaling approximately $14,156,350.

Water and Wastewater Grant Fund Program

The Legislature established the Water and Wastewater Project Grant Fund in 1999. In 2000, the Legislature authorized the NMFA to issue up to $5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated $40,910,000 to the Water and Wastewater Grant Fund Program to fund 76 public water and wastewater systems. The Legislature has appropriated and authorized the use of $15,000,000 to the Water and Wastewater Grant Fund for emergency public purposes. In 2004, the Legislature authorized the NMFA to make grants to benefit 153 projects. The NMFA will fund grants for these projects on a first come, first served basis. As of September 29, 2006, the NMFA had made 147 grants totaling $56,440,363 and had approved an additional 12 projects, totaling $3,631,739. 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 do not require 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 29, 2006, the NMFA had made 39 grants totaling $844,890.

State Building Bonding Fund Program

In 2001, the Legislature 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, specifically 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.

Bonds issued under the State Building Bonding Fund Program are payable from the State Building Bond Fund, consisting of funds appropriated and transferred to the fund as well as gross receipts tax revenues distributed to the Fund. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of $34,695,000 to finance a portion of the authorized projects. On September 5, 2006, the NMFA issued its Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2006D (the "Series 2006D Bonds") in the amount of $56,400,000. Contemporaneously with the issuance of the Series 2006D Bonds, the NMFA issued its State Building Tax Revenue Bonds, Series 2006B for the purpose of refunding the Outstanding State Office

Building Tax Revenue Bonds, Series 2002A. A portion of the proceeds of the Series 2006D Bonds were used to purchase the State Building Tax Revenue Bonds, Series 2006B.

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.

Rural County Cancer Treatment Fund

In 2006, the Legislature authorized the NMFA to issue and sell revenue bonds for the purpose of designing, constructing, equipping and furnishing additions and improvements to a regional cancer center at the Gila Regional Medical Center in Grant County and subsequent rural cancer treatment facilities in Class B counties.

APPENDIX G

GOVERNMENTAL UNITS AND THEIR OUTSTANDING LOAN BALANCES

Revenues from the Loans secure the Series 2007A Bonds. The Governmental Units and the outstanding principal balances of their respective Loans are listed in the following table

Governmental Unit	Original Loan Amount	Agreement Reserve Amount	Pledged Revenues	Closing Date	Loan Maturity Date
City of Bayard	$175,000	$ -	State Fire Protection Funds	8/18/2006	5/2017
Zuni Public Schools	2,702,601	202,601	Federal Impact Aid	9/8/2006	8/2026
Chaves County-East Grand Plains Volunteer Fire Department	150,000	-	State Fire Protection Funds	9/22/2006	5/2017
Jemez Valley Public School District No. 31	750,000	-	Ad Valorem Property Tax	9/29/2006	8/2019
Village of San Jon	294,445	29,445	State Fire Protection Funds	10/20/2006	5/2017
City of Santa Fe	7,642,231	-	Gross Receipts Tax	10/20/2006	6/2026
City of Bloomfield	528,051	-	Net System Revenues and State Shared Gross Receipts Tax	10/27/2006	5/2022
Hatch Valley Public Schools	650,000	-	Ad Valorem Property Tax	10/27/2006	8/2014
City of Las Cruces	816,777	-	State Fire Protection Funds	11/10/2006	6/2014
City of Las Cruces	1,865,251	186,525	Municipal Gross Receipts Tax	11/10/2006	6/2014
Cibola County – Candy Kitchen Fire Department	554,529	38,147	State Fire Protection Funds	11/17/2006	5/2027
Cuba Independent School District	725,000	-	Ad Valorem Property Tax	12/1/2006	8/2019
Gadsen Independent School District	12,250,000	-	Ad Valorem Property Tax	12/1/2006	8/2017
Village of Corona	277,778	27,778	State Fire Protection Funds	12/1/2006	5/2017
City of Las Cruces	9,985,448	910,557	Municipal Gross Receipts Tax	12/15/2006	6/2021
Total	$39,367,111	$1,395,053			

Prior to the issuance of the 2007A Bonds, the following five Governmental Units represent the largest repayment obligations. Additional information concerning these Governmental Units is provided below.

Bernalillo County Metropolitan Court

New Mexico's court system consists of five levels of state funded courts. These five levels of courts include the Supreme Court, the Court of Appeals, the District Courts, the Magistrate Courts, and the Metropolitan Courts. 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).

On April 5, 2005, the NMFA issued its $50,395,000 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D. Proceeds from the sale of the Series 2005C Bonds and Series 2005D Bonds were used by the NMFA to purchase $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 (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.

The Metro Court Bonds are payable solely from the Pledged Court Facilities Revenues, 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 have been declining since fiscal year 2004. The NMFA and the Administrative Office of the Courts are in the process of assessing options to maintain revenues sufficient to satisfy the debt service obligations on the Metro Court Bonds. Neither the NMFA nor the Bernalillo County Metropolitan Court can predict with certainty the future growth or decline of court fees and penalty assessments.

The FBI is currently investigating allegations of kickbacks in connection with the construction of the Bernalillo Metropolitan Court. The NMFA does not expect that the investigation will impact the repayment of the Series 2005C Bonds or the Series 2005D Bonds.

Albuquerque-Bernalillo County Water Utility Authority

In the 2003 Regular Session, the New Mexico Legislature adopted legislation (Laws 2003, Chapter 437, codified as NMSA 1978, Section 72-1-10) creating the Albuquerque-Bernalillo County Water Utility Authority (the "ABCWUA") as a joint agency of the City of Albuquerque, New Mexico (the "City") and Bernalillo County. The ABCWUA is comprised of a board of three City Councilors, three County Commissioners and the Mayor of the City, which has jurisdiction over certain water facilities and properties (the "Water System") and certain sanitary sewer facilities and properties (the "Sewer System").

Pursuant to a Loan Agreement in the amount of $20,000,000 entered into on October 28, 2005 between the ABCWUA and the NMFA, the ABCWUA pledged to the NMFA, on a parity basis with others, water and sewer systems revenues for the purpose of: acquiring, constructing, extending, enlarging, bettering, repairing, replacing, equipping or otherwise improving the water/sewer system, water, wastewater system including expenses related to: regular system improvements, expansion, maintenance and upgrades to operate a water and wastewater utility pursuant to the basic capital program and diversion of surface water from the San Juan Chama and delivering it for use by current and future users of the system.

Water System

The Water System provides water services to approximately 518,623 customers comprising approximately 88% of the residents of Bernalillo County, New Mexico. About one-third of unincorporated Bernalillo County residents are customers of the Water System. As of April 30, 2006, the Water System provides service to approximately 171,500 accounts, including 154,800 residential and 15,300 multi-family, commercial, institutional and industrial accounts. Approximately 59% of the ABCWUA's water sales are for residential uses.

Ground water from the middle Rio Grande basin aquifer underlying the service area is presently the primary source of supply used for the Water System. The supply is produced from 93 wells grouped in 25 well fields located throughout the metropolitan area. Total well production capacity is approximately 294 million gallons per day ("MGD"). Maximum historical peak day demand is 214 MGD. A chlorination/fluoridation station associated with each well field satisfies the total required water treatment needs for the water produced in such well field.

Sewer System

The ABCWUA provides service to approximately 165,000 wastewater accounts, or 83% of Bernalillo County residents. The principal sanitary sewer facilities currently include a wastewater treatment plan with a cogeneration facility located south of the City and a sludge disposal site located west of the City. The Sewer System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows, by gravity to the Southside Water Reclamation Plant located south of the service area. The treatment plant provides preliminary screening, grit removal, primary clarification, and sludge removal, advanced secondary treatment including ammonia and nitrogen removal, final clarification, and effluent chlorination and de-chlorination prior to discharge to the Rio Grande.

Treatment capacity has in the past been based on 76 MGD hydraulic capacity. Existing flows at the plant are about 54 MGD. The ABCWUA has a fully operational industrial pretreatment program approved by the U.S. Environmental Protection Agency ("EPA") that was approved as a pilot program under the EPA's XL Program.

University of New Mexico—Subordinate Lien Cigarette Tax Bonds/UNM Health Sciences Center Project

On August 30, 2005, the NMFA issued its $23,630,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E. Proceeds from the sale of Series 2005E Bonds were primarily used by the NMFA to purchase Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Science Center Projects), Series 2005 (collectively, "the Subordinate Lien Cigarette Tax Revenue Bonds"). A portion of the proceeds of the Subordinate Lien Cigarette Tax Revenue Bonds will provide funds for improvements at the Health Science Center at the University of New Mexico in Albuquerque, New Mexico and a portion of the proceeds of the Subordinate Lien Cigarette Tax Revenue Bonds were used to refund a portion of the NMFA's Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate). The Subordinate Lien Cigarette Tax Bonds are payable from and secured by certain cigarette tax revenues required to be distributed to the NMFA on behalf of and for the benefit of the Health Science Center. As additional security for the Subordinate Lien Cigarette Tax Bonds, the NMFA has pledged, on a subordinate basis, the amounts on deposit in a credit enhancement account created by Section 6-21-6.7 NMSA 1978.

City of Santa Fe—Convention and Civic Center Loan

On March 28, 2006, the NMFA issued its $49,545,000 Subordinate Lien Public Project Revolving Fund Reserve Bonds, Series 2006A. A portion of the proceeds from the sale of the Series 2006A Bonds were used to finance the construction of a new Convention and Civic Center in the City of Santa Fe. The 72,000 square foot project will replace the existing Sweeney Convention Center and will nearly double the exhibit area floor space. The new Convention and Civic Center is expected to open in calendar year 2008. Pursuant to a Loan Agreement in the amount of $42,220,000 between the City of Santa Fe and the NMFA, the City of Santa Fe has pledged to the NMFA the City's Lodgers' Tax to the repayment of the loan.

Jicarilla Apache Water Utility Authority—Water Lease Revenues Loan

On November 7, 2006, the NMFA issued its $39,860,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2006C. A portion of the proceeds from the sale of the Series 2006C Bonds were used to finance a loan to the Jicarilla Apache Tribal Utility Authority (the "JATUA").

Specifically, on August 11, 2006, the JATUA and the NMFA entered into a Loan Agreement pursuant to which the NMFA agreed to lend to the JATUA $21,650,229 for the purpose of constructing, purchasing and equipping portions of the System. The NMFA and the Jicarilla Apache Nation also entered into an Agreement Regarding Loan pursuant to which the Nation pledged the moneys deposited to an account created for the deposit of all water lease revenues ("Water Lease Revenues") received from the various third parties that have entered into water leases with the Nation, whether now existing or subsequently entered into (the "Water Leases"), to the payment of principal, interest and administrative fees due under the Loan Agreement. The JATUA itself has pledged no security to make payments under the Loan Agreement.

To date, the Nation has executed eight Water Leases. These Water Leases generated approximately $2,855,822 of Water Lease Revenue for calendar year 2006. The Nation's two largest Water Leases are described below.

The Nation has a water lease of San Juan-Chama Project Contract Water to the City of Santa Fe (the "Santa Fe Lease") pursuant to which the Nation will lease 3,000 acre feet of water for $500 per acre foot per year with annual rate increases tied to the consumer price index and market changes. The Santa Fe Lease is terminable by the City for any reason with four years' prior written notice and five years of annual payments following notice of termination. The Nation also has an additional 3,500 acre feet of water available for long term lease to any third party for use in the Rio Grande Basin.

The Nation also has approved leases of Contract Water in the San Juan Basin. In the San Juan Basin, the Nation's largest lease is to the Public Service Company of New Mexico ("PNM") (the "PNM Lease"). Pursuant to the provisions of the PNM Lease, the Nation will lease 16,200 acre feet of water to PNM for $75 an acre foot a year with annual rate increases based on a calculated delivery rate (dollars per acre foot) set by the United States Bureau of Reclamation ("Reclamation") for Colorado River Storage Project contracts. The PNM Lease is terminable by PNM if PNM decides to deactivate, decommission or cease operation of all or a portion of the San Juan Generating Station. Thirty days' written notice is required. Liquidated damages require annual payment equal to that of the previous 12 months. The Nation also has an additional 8,500 acre feet available for long-term lease to any third party for use in the San Juan Basin.

APPENDIX H

FORM OF SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

____
President

SPECIMEN

Attest: _______________________________
Assistant Secretary

STD-R-7
01/05

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NEW MEXICO FINANCE AUTHORITY • SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS SERIES 2007A

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NEW ISSUE – Book-Entry Only

Insured/Underlying Ratings: Moody's "Aaa"; "Aa3"
S&P "AAA"; "A+"
Fitch "AAA"; "AA–"
MBIA Insured
(See "RATINGS" herein.)

In the opinion of Brownstein Hyatt Farber Schreck, P.C., Bond Counsel to the NMFA, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Series 2007B Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2007B Bonds is exempt from State of New Mexico personal income taxes as described herein. See "TAX MATTERS" regarding certain other tax considerations.

$38,475,000

NEW MEXICO FINANCE AUTHORITY

SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS, SERIES 2007B

Dated: Date of initial delivery **Due: June 15, as shown on inside cover**

The New Mexico Finance Authority Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2007B 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 of the Series 2007B 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 2007B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2007B Bonds will be made in book-entry form only, and beneficial owners of the Series 2007B 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 2007B Bonds.

The Series 2007B Bonds will be issued under and secured by the Subordinated General Indenture of Trust and Pledge. Interest on the Series 2007B Bonds accrues from the date of initial delivery of the Series 2007B Bonds and is payable on June 15 and December 15 of each year, commencing December 15, 2007. Principal of the Series 2007B 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 2007B Bonds are subject to redemption prior to maturity.

Proceeds of the Series 2007B Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to or purchase securities from certain governmental entities that will be or were used to finance certain Projects for such governmental entities; (ii) retiring a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007B Bonds; (iii) purchasing a debt service reserve fund surety bond for deposit into the Debt Service Reserve Account established for the Series 2007B Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007B Bonds. The principal of and premium, if any, and interest on the Series 2007B 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 2007B 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 2007B Bonds.

The Series 2007B 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 2007B 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 2007B Bonds will be construed or interpreted 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 2007B Bonds do not constitute or give rise to personal liability on the part of the members, directors or officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Simultaneously with the delivery of the Series 2007B Bonds, a financial guaranty insurance policy will be issued by MBIA Insurance Corporation insuring the payment of principal and interest on the Series 2007B Bonds when due. See "BOND INSURANCE" herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Certain legal matters concerning the legality of the Series 2007B Bonds will be passed on by Brownstein Hyatt Farber Schreck, P.C., Albuquerque, New Mexico, Bond 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 Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Disclosure Counsel to the NMFA. The General Counsel of the NMFA will deliver a non-litigation certificate for the NMFA. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2007B Bonds. It is expected that a single certificate for each maturity of the Series 2007B Bonds will be delivered to DTC or its agent on or about July 19, 2007. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2007B Bonds.

RBC CAPITAL MARKETS **GEORGE K. BAUM & COMPANY** **UBS INVESTMENT BANK**

This Official Statement is dated June 28, 2007 and the information contained herein speaks only as of that date.

$38,475,000
NEW MEXICO FINANCE AUTHORITY
SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS, SERIES 2007B

MATURITY SCHEDULE

Year (June 15)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2008	$985,000	4.00%	3.78%	64711M 4N4
2009	3,315,000	4.00	3.84	64711M 4P9
2010	2,035,000	4.00	3.90	64711M 4Q7
2011	2,000,000	4.25	3.94	64711M 4R5
2012	2,170,000	4.25	4.00	64711M 4S3
2013	1,950,000	4.25	4.04	64711M 4T1
2014	1,970,000	4.25	4.10	64711M 4U8
2015	1,710,000	4.25	4.15	64711M 4V6
2016	1,845,000	4.50	4.21	64711M 4W4
2017	2,300,000	5.00	4.26	64711M 4X2
2018	2,170,000	5.00	4.34(c)	64711M 4Y0
2019	2,015,000	5.00	4.38(c)	64711M 4Z7
2020	1,925,000	5.00	4.43(c)	64711M 5A1
2021	2,045,000	5.00	4.45(c)	64711M 5B9
2022	1,300,000	5.00	4.49(c)	64711M 5C7
2023	1,200,000	5.00	4.52(c)	64711M 5D5
2024	1,165,000	5.00	4.55(c)	64711M 5E3
2025	1,845,000	5.00	4.57(c)	64711M 5F0

$2,890,000 Series 2007B Term Bond due June 15, 2030 bearing interest at 5.00% per annum, price 102.748%(c), CUSIP Number 64711M 5H6†

$1,640,000 Series 2007B Term Bond due June 15, 2034 bearing interest at 4.75% per annum, price 100.000%, CUSIP Number 64711M 5G8†

(c) Priced to optional call on June 15, 2017.

† The above referenced CUSIP number(s) have been assigned by an independent company not affiliated with the parties to this bond transaction and are included solely for the convenience of the holders of the Series 2007B Bonds. Neither the NMFA, the Trustee nor the Underwriters is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to its correctness on the Series 2007B Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2007B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

The information set forth herein has been obtained from the NMFA, DTC, the Insurer and other sources that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the NMFA, or in any other information contained herein since the date hereof.

No dealer, broker, salesman or any other person has been authorized by the NMFA, the Insurer or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy nor shall there be any sale of the Series 2007B Bonds by any person in any jurisdiction in which it is unlawful for such offer, solicitation or sale.

All inquiries relating to this Official Statement and the offering contemplated herein should be directed to the Underwriters. Prospective investors may obtain additional information from the Underwriters or the NMFA which they may reasonably require in connection with the decision to purchase any of the Series 2007B Bonds from the Underwriters.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Forward-looking statements are included in the Official Statement under the caption "THE PLAN OF FINANCING—Estimated Sources and Uses of Funds." The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

The yields at which the Series 2007B Bonds are offered to the public may vary from the initial reoffering yields on the inside front cover page of this Official Statement. In connection with this offering, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect market prices of the Series 2007B Bonds. Such transactions, if commenced, may be discontinued at any time.

The NMFA maintains a website; however, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2007B Bonds.

THE SERIES 2007B BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW AND WILL NOT BE LISTED ON ANY STOCK OR OTHER SECURITIES EXCHANGE. THE SERIES 2007B BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NEW MEXICO FINANCE AUTHORITY
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Santa Fe, New Mexico 87501
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Members
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Salt Lake City, Utah

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

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OFFICIAL STATEMENT

RELATING TO

$38,475,000
NEW MEXICO FINANCE AUTHORITY
SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS,
SERIES 2007B

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 2007B (the "Series 2007B Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2007B 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, dated as of March 1, 2005, as previously supplemented (the "General Indenture"), and as supplemented by a Seventh Supplemental Indenture of Trust, dated as of June 1, 2007 (the "Seventh Supplemental Indenture" and collectively with the General Indenture, the "Indenture") all 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."

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. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY," the NMFA's financial statements for the fiscal year ended June 30, 2006 included as APPENDIX A hereto.

Authority and Purpose

The Series 2007B 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" herein.

Proceeds from the sale of the Series 2007B Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities ("Governmental Units") that will be or were used to finance certain Projects for such Governmental Units (collectively, the "Loans"); (ii) retiring a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007B Bonds; (iii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007B Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007B Bonds. See "THE PLAN OF FINANCING" and APPENDIX F for a list of the Governmental Units and the outstanding balances of the loans financed with the 2007B Bonds and information relating to the Governmental Units whose Loans provide the largest repayment obligations.

Parity Obligations

Bonds and other obligations with a lien on the Trust Estate in parity with the lien of the Series 2007B 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 (the "Outstanding Parity Bonds"), see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Outstanding Parity Bonds."

The Series 2007B Bonds

The Series 2007B Bonds will be dated the date of their initial delivery. Interest on the Series 2007B Bonds is payable on June 15 and December 15 of each year, commencing December 15, 2007. The Series 2007B 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. The Series 2007B Bonds are issuable in denominations of $5,000 or integral multiples of $5,000.

Individual purchases will be made in book-entry only form, and purchasers of the Series 2007B 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 2007B 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 2007B Bonds, all as more fully described in APPENDIX E. In reading this Official Statement, it should be understood that while the Series 2007B 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 2007B Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system as described in APPENDIX E, and (ii) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption

The Series 2007B Bonds are subject to redemption prior to maturity. See "THE SERIES 2007B BONDS—Redemption."

Security and Sources of Payment

Special Limited Obligations. The Bonds, including the Series 2007B 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: (i) moneys from the repayment by governmental borrowers of loans made or securities issued to finance a project under the Indenture ("Agreements"); (ii) 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; (iii) 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 (ii) in this paragraph, the "Subordinate Lien PPRF Revenues"); (iv) 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 (v) certain funds and accounts created and maintained pursuant to the Indenture. 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" herein. Moneys from the sources described in (ii) and (iii) above may be released from the Indenture on June 16 of each year. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

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. No provision of the Series 2007B Bonds will be construed or interpreted 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 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 2007B 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 2007B 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—Other Funds and Accounts."

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 and obligations 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 are 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."

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 2007B Bonds. The NMFA must satisfy certain requirements set forth in the Indenture to issue such Additional Bonds. The timing, amount and other details of such Additional Bonds are not known as of the date of this Official Statement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Bonds."

Bond Insurance

Simultaneously with the delivery of the Series 2007B Bonds, a financial guaranty insurance policy (the "Bond Insurance Policy") will be issued by MBIA Insurance Corporation ("MBIA" or the "Bond Insurer") insuring the payment of principal of and interest on the Series 2007B Bonds when due. See "BOND INSURANCE" herein.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2007B Bond Owners that, so long as the Series 2007B 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. The Continuing Disclosure Undertaking is summarized in "APPENDIX G—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. The provisions of the Continuing Disclosure Undertaking may be amended under certain circumstances. See "CONTINUING DISCLOSURE UNDERTAKING."

Tax Considerations

In the opinion of Brownstein Hyatt Farber Schreck, P.C., Bond Counsel to the NMFA, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Series 2007B Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2007B Bonds is not included in New Mexico taxable income or New Mexico alternative minimum taxable income under present New Mexico income tax laws as described herein. See “TAX MATTERS” regarding certain other tax considerations.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2007B Bonds, Brownstein Hyatt Farber Schreck, P.C., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in the form included in APPENDIX D. Certain legal matters will be passed upon by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer’s Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Disclosure Counsel to the NMFA. The General Counsel of the NMFA will deliver a no-litigation certificate for the NMFA. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2007B Bonds. See “FINANCIAL ADVISOR” herein.

The NMFA’s audited financial statements for the fiscal year ended June 30, 2006, included in APPENDIX A hereto, have been audited by Meyners & Company, Certified Public Accountants, Albuquerque, New Mexico. See also “FINANCIAL STATEMENTS.”

Offering and Delivery of the Series 2007B Bonds

The Series 2007B 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 2007B Bonds will be delivered to DTC or its agent on or about July 19, 2007. The Series 2007B Bonds will be distributed in the initial offering by RBC Capital Markets, George K. Baum & Company and UBS Securities LLC, (collectively, the “Underwriters”), for which RBC Capital Markets is acting as managing underwriter and representative of the Underwriters (in such role, the “Representative”).

Other Information

This Official Statement speaks only as of its date, and the information in it is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents in this Official Statement do not purport to be complete, and reference is made to those laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Financial Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and any purchaser or holder of Series 2007B Bonds.

THE SERIES 2007B BONDS

General

The Series 2007B Bonds will be dated as of the date of their delivery and interest will accrue on the Series 2007B Bonds from such 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, 2007. The Series 2007B 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 2007B 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 2007B 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 2007B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2007B Bonds will be made in book-entry only form, and beneficial owners of the Series 2007B 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 2007B Bonds. For a more complete description of the book-entry only system, see "APPENDIX E—BOOK-ENTRY ONLY SYSTEM" herein.

Redemption

Optional Redemption. The Series 2007B Bonds maturing on or after June 15, 2018 are subject to optional redemption at any time on and after June 15, 2017, 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 General Indenture and at the redemption price of 100% of the principal amount of the Series 2007B Bonds to be redeemed, plus interest accrued to the redemption date.

Mandatory Sinking Fund Redemption. The Series 2007B Bonds maturing on June 15, 2030 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount thereof 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
2026	$780,000
2027	825,000
2028	405,000
2029	430,000
2030*	450,000

* Final Maturity

If any of the Series 2007B Bonds maturing on June 15, 2030 then outstanding are optionally redeemed, an amount equal to the principal amount so redeemed shall be credited toward a part or all of any one or more of any mandatory sinking fund payments for the Series 2007B Bonds maturing on June 15, 2030, in such order as may be directed by the NMFA.

The Series 2007B Bonds maturing on June 15, 2034 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount thereof 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
2031	$475,000
2032	500,000
2033	325,000
2034*	340,000

* Final Maturity

If any of the Series 2007B Bonds maturing on June 15, 2034 then outstanding are optionally redeemed, an amount equal to the principal amount so redeemed shall be credited toward a part or all of any one or more of any mandatory sinking fund payments for the Series 2007B Bonds maturing on June 15, 2034, 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 2007B Bonds, are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2007B 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. No provision of the Series 2007B Bonds will be construed or interpreted 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 principal of and interest and premium, if any, on the Series 2007B Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Trust Estate

In the Indenture, the NMFA pledges and assigns the Trust Estate, 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: (i) Agreement Revenues; (ii) Additional Pledged Revenues; (iii) Subordinate Lien PPRF Revenues; and (iv) 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."

Agreement Revenues. The Agreements consist of Loan Agreements and Securities (each as defined in the Indenture) 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 (i) revenues of specific enterprise systems or revenues attributable to certain taxes (the "Agreement Revenues") and (ii) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to 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. Each Governmental Unit that has entered into a Loan Agreement or has issued Securities has pledged specific Agreement Revenues to the repayment of its Loan. See APPENDIX F for a list of the Governmental Units and the allocable portions of the Loans financed with the Series 2007B Bonds. 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.

The following table lists the ten Agreements that, based on scheduled payments in fiscal year 2007-08 and assuming no prepayments of the Agreements, are expected to generate the largest Agreement Revenues in fiscal year 2007-08. These ten Agreements comprise 78.07% of projected Agreement Revenues for fiscal year 2007-08.

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AGREEMENTS EXPECTED TO GENERATE AGREEMENT REVENUES[1]

Obligor/Issuer	FY 2007-08 Loan Payment[2]	% of Projected FY 2007-08 Agreement Revenues	Final Maturity
Gadsden Independent School District	$7,980,925	24.88%	8/01/2011
NMFA (Metro Court Bonds)	4,481,178	13.97	6/15/2025
Farmington Municipal Schools[3]	2,638,320	8.23	9/01/2007
City of Santa Fe	2,556,223	7.97	6/01/2035
Jicarilla Apache Utility Authority	1,595,408	4.97	5/01/2026
Gallup-McKinley County Public Schools	1,358,745	4.24	8/01/2020
City of Las Cruces	1,306,097	4.07	6/01/2021
NMFA (2005 Subordinate Lien Cigarette Tax Bonds)	1,161,663	3.62	6/15/2025
City of Rio Rancho SAD #6[3]	1,083,515	3.38	5/01/2016
Santo Domingo Pueblo[3]	877,741	2.74	5/01/2018
Total	$25,039,815	78.07%	

(1) Based on scheduled fiscal year 2007-08 debt service and assumes no prepayment or redemption.
(2) Constitutes Agreement Revenues.
(3) Such Agreement constitutes an Additional Pledged Loan. See "Flow of Funds" below under this caption.
(Source: NMFA.)

Although Agreement Revenues are received at various times throughout the year, they are held under the Indenture until June 15 of each year to be applied to pay debt service on the Bonds. For more information with respect to Agreement Revenues and Governmental Units, see "APPENDIX F—GOVERNMENTAL UNITS AND THEIR OUTSTANDING LOAN BALANCES" hereto.

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 of Subordinate Lien PPRF Revenues.

The NMFA may require and has previously required the establishment and funding of an 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.

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. 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" herein. At the present, the NMFA has not designated any sources of revenues or "Additional Pledged Revenues."

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 (the "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 moneys released from the Senior Indenture on June 1 of each Bond Fund Year 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).

The following table shows, for fiscal years 2002-03 through 2006-07, the amounts released to the NMFA from the Senior Indenture, which represent the amounts that would be included as Historic Subordinate Lien PPRF Revenues under the Indenture.

HISTORIC SUBORDINATE LIEN PPRF REVENUES
FISCAL YEARS 2002-03 THROUGH 2006-07
(RELEASED TO INDENTURE ON JUNE 1)

Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07
$18,138,693	$18,185,919	$37,894,840[(1)]	$25,324,966	$34,227,800[(2)]

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

(2) Figure is an estimate based upon actual amounts through March and projections through the balance of the fiscal year.

(Source: NMFA.)

The Governmental Gross Receipts Tax. Pursuant to Section 7-1-6.38, NMSA 1978, the Public Project Revolving Fund administered by the NMFA is allocated seventy-five percent (75%) (the "NMFA Portion of the Governmental Gross Receipts Tax") of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. The governmental gross receipts tax was enacted into law and first imposed in 1991 at a rate of five percent on governmental gross receipts. 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 (i) the sale of tangible personal property other than water from facilities open to the general public; (ii) the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public; (iii) refuse collection, refuse disposal or both; (iv) sewage services; (v) the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State; and (vi) the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tiedown aircraft or dock boats.

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

Certain receipts are excluded from the governmental gross receipts tax, including (i) receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision, (ii) receipts from operation of a cable television system owned or operated by a municipality, (iii) receipts from the sale of livestock, receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, and (iv) receipts from certain activities at a minor league baseball stadium.

In addition, there are certain deductions from the governmental gross receipts tax, including (i) certain receipts from selling tangible personal property to the United States or the State, (ii) receipts from selling tangible personal property to an Indian tribe, nation or pueblo, (iii) receipts from transactions in interstate commerce, (iv) 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, and (v) 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 2002-03 through 2006-07.

GOVERNMENTAL GROSS RECEIPTS TAX COLLECTIONS
FISCAL YEARS 2002-2003 THROUGH 2006-07

	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07(1)
Total Net Receipts	$22,908,393	$24,491,159	$24,593,886	$25,916,537	$26,494,223
NMFA Portion of the Governmental Gross Receipts Tax	$17,181,295	$18,368,369	$18,445,414	$19,437,403	$19,870,667

(1) Figures are estimates based upon actual amounts through March and projections through the balance of the fiscal year. Estimate is unaudited; cash basis.

(Source: State of New Mexico Taxation and Revenue Department.)

The information presented below relates to the ten top payers of the governmental gross receipts tax for fiscal years 2003-04 through 2005-06. Such information is for informational purposes and is presented to show trends of the receipt of governmental gross receipts tax. Such information is not publicly available from the State and has instead been obtained from each individual entity and is believed to be reliable. However, the NMFA has not verified and does not guarantee the accuracy of any such information.

TOP PAYERS OF GOVERNMENTAL GROSS RECEIPTS TAXES[(1)]
FISCAL YEARS 2003-04 THROUGH 2005-06

	Fiscal Year 2003-04		Fiscal Year 2004-05		Fiscal Year 2005-06	
Entity	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts	Amount Paid	% of Total Net Receipts
Albuquerque Bernalillo County Water Utility Authority[(1)]	$5,992,345	24.47%	$5,840,450	23.75%	$6,204,046	25.23%
City of Albuquerque[(1)]	2,393,510	9.77	3,014,954	12.26	3,135,295	12.75
City of Santa Fe	2,335,710	9.54	2,161,898	8.79	2,110,865	8.58
City of Las Cruces	1,240,693	5.07	1,273,532	5.18	1,390,969	5.66
University of New Mexico	1,111,129	4.54	1,286,475	5.23	1,198,860	4.87
City of Rio Rancho	807,306	3.30	876,666	3.56	1,005,457	4.09
City of Farmington	664,164	2.71	673,920	2.74	678,451	2.76
City of Roswell	551,411	2.25	531,245	2.16	556,207	2.26
County of Los Alamos	478,477	1.95	443,102	1.80	488,464	1.99
City of Gallup	347,556	1.42	396,420	1.61	308,208	1.25
Total	$15,922,302	65.01%	$16,498,662	67.08%	$17,076,822	69.44%

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(1) Unaudited.
(Sources: Listed entities. No representation regarding the accuracy of such information is made by the NMFA.)

Funds and Accounts

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 all of which are part of the Trust Estate. Amounts on deposit in accounts in each Debt Service Reserve Account and in each Agreement Reserve Account shall only secure repayment of the Loan made under the related Agreement.

Flow of Funds

Loan Payments. 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).

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 (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. 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 remaining excess will be deposited into the Revenue Fund.

<u>Revenue Fund</u>. During each Bond Fund Year, (i) 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, (ii) all 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 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 funds 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:

(a) 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.

(b) 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 which has occurred that has not otherwise been rectified.

(c) 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:

(a) To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (i) 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 (ii) 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

(b) 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 (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 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. At this point, the NMFA has not entered into any counterparty transactions with respect to the PPRF.

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 2007B Bonds in 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 two percent 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; or (iii) 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 agreements, 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.

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. Neither the outstanding Bonds nor the Series 2007B Bonds are subject to mandatory redemption under such circumstances. With respect to the Series 2007B Bonds, the Indenture instead provides that, for the purpose of matching, to the extent practicable, (i) the revenues received from Loan Payments received pursuant to Loans reimbursed or originated with proceeds of the Series 2007B Bonds with debt service payable on Series 2007B Bonds, and (ii) the overall debt service requirements on the Outstanding Bonds and the Series 2007B Bonds with revenues received from Loan Payments on all outstanding Loans, the NMFA shall, within 365 days following the receipt of a Prepayment, in part or in full, of a Loan reimbursed with proceeds of Series 2007B Bonds, take separately or in combination any one or more of the actions described in subsections (a), (b) or (c) of this Section:

(a) The NMFA may, to the extent practicable, call for optional redemption prior to maturity Series 2007B Bonds which are subject to redemption, selecting Series 2007B 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 pursuant to this Subsection); or

(b) The NMFA may, to the extent practicable, originate one or more new Loans (i) in an aggregate principal amount equal to or greater than the amount of the Prepayment (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied pursuant to this Subsection), and (ii) with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied pursuant to this Subsection). The NMFA shall provide a Cash Flow Statement to the Trustee establishing that, in taking the actions described in subsection (b) of this Section, the requirements of the Cash Flow Statement, as defined in of the Indenture, are satisfied.

(c) In the event that the NMFA does not take one of the actions described in either subsections (a) or (b) of this Section, the NMFA shall defease Series 2007B Bonds, in Authorized Denominations, to the first optional redemption date for such Series 2007B Bonds, 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 pursuant to this Subsection). The principal amount and maturity date of the Series 2007B 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 which is consistent with the actions taken as described in subsections (a), (b) or (c) of this Section.

(d) If, within 90 days following the receipt of a Prepayment, the NMFA has not either redeemed Bonds as provided in Subsection (a) of this Section or originated one or more new Loans as provided in Subsection (b) of this Section, the NMFA shall restrict the yield on investment of the Prepayment amount to the yield on the Loan for 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 Series 2007B Bonds have been defeased as provided in Subsection (c) of this Section.

To date, the NMFA has not received any Prepayments on loans or securities pledged as Loans or Additional Pledged Loans under the General Indenture, as previously supplemented.

Additional Bonds

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:

(a) The 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. A Cash Flow Statement incorporates a variety of items including revenues, debt service, loan prepayments and discount factors for certain types of Loans and more particularly described in "APPENDIX B—EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

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

(c) The proceeds of the Additional Bonds, 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.

(d) No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds, 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.

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 has previously issued other Series of Bonds that are outstanding under the Indenture. The various Series of Bonds, their original principal amounts and their aggregate principal amounts outstanding as of June 15, 2007 are set forth below.

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Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of June 15, 2007[(1)]
2005C [(2) (3)]	$50,395,000	$50,395,000
Taxable 2005D [(2) (3)]	8,660,000	2,525,000
2005E[(4)]	23,630,000	23,630,000
2005F[(5)]	21,950,000	21,215,000
2006A[(6)]	49,545,000	49,490,000
2006C[(7)]	39,860,000	39,095,000
2007A[(8)]	34,010,000	33,695,000
Total	$228,050,000	$220,045,000

(1) Bonds mature on June 15.

(2) The Series 2005C and Series 2005D Bonds were issued to refinance bonds issued in 2001, 2002 and 2003 to finance a new Metropolitan Courthouse Complex located in downtown Albuquerque (the "Metro Court"). It should be noted that revenues that provide the source of repayment for the Series 2005C and the Series 2005D Bonds have recently declined. In addition, indictments were recently handed down against various parties that are accused of engaging in a scheme of kickbacks in connection with the construction of the Metro Court. The NMFA has not conducted a comprehensive investigation of the alleged kickback scheme that is the subject of the indictments. However, the NMFA is not aware of any relationship between the indictments and the decline in the revenues that provide the source of repayment for the Series 2005C and Series 2005D Bonds. See "APPENDIX F—GOVERNMENTAL UNITS AND THEIR OUTSTANDING LOAN BALANCES—Largest Payors of Agreement Revenues—Bernalillo County Metropolitan Court" hereto.

(3) The official statement for the NMFA's Series 2005C Bonds and Series 2005D Bonds, which includes information concerning the Metro Court Bonds, is available at the Internet site http://www.munios.com.

(4) The official statement for the NMFA's Series 2005E Bonds, which includes information concerning the 2005 Subordinate Lien Cigarette Tax Bonds, is available at the Internet site http://www.munios.com.

(5) The official statement for the NMFA's Series 2005F Bonds is available at the Internet site http://www.munios.com.

(6) The official statement for the NMFA's Series 2006A Bonds is available at the Internet site http://www.munios.com.

(7) The official statement for the NMFA's Series 2006C Bonds is available at the Internet site http://www.munios.com.

(8) The official statement for the NMFA's Series 2007A Bonds is available at the Internet site http://www.munios.com.

(Source: Western Financial Group, LLC.)

See "ANNUAL DEBT SERVICE REQUIREMENTS" for Debt Service Requirements on the Outstanding Bonds and aggregate payments under Agreements.

The NMFA plans to issue a series of Additional Bonds in September 2007 in the approximate amount of $200 million. In addition, the NMFA may issue additional bonds pursuant to the Indenture from time to time to satisfy the financing needs of governmental entities in the State of New Mexico.

Outstanding Senior Bonds

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 (i) 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"; (ii) 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); (iii) all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Senior Indenture; and (iv) 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 from time to time to satisfy the financing needs of governmental entities of the State of New Mexico. 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 June 15, 2007[(1)]
1999A	$13,135,000	$7,100,000
1999B	3,025,000	1,235,000
1999C	2,265,000	765,000
1999D	4,875,000	2,260,000
2000A	4,715,000	1,055,000
2000B	7,670,000	705,000
2000C	28,850,000	1,640,000
2002A[(2)]	55,610,000	23,170,000
2003A	39,945,000	23,799,000
2003B	25,370,000	21,470,000
2004A-1[(3)]	28,410,000	21,610,000
2004A-2	14,990,000	13,315,000
2004B-1	48,135,000	40,170,000
2004B-2	1,405,000	1,185,000
2004C	168,890,000	151,540,000
2005A	19,015,000	16,595,000
2005B	13,500,000	13,225,000
2006B	38,260,000	37,605,000
2006D	56,400,000	52,645,000
Total Outstanding	$574,465,000	$431,089,000

(1) Senior Bonds mature on June 1.

(2) A portion of the principal of this series in the amount of $170,000 is scheduled to be redeemed on July 1, 2007.

(3) A portion of the principal of this series in the amount of $70,000 is scheduled to be redeemed on July 13, 2007.

(Source: Western Financial Group, LLC.)

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, to be 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 to be 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 MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to APPENDIX H for a specimen of MBIA's policy (the "Bond 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 2007B Bonds or the advisability of investing in the Series 2007B Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the NMFA to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2007B Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 2007B Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2007B Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2007B Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Series 2007B Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2007B 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 2007 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 2007B Bonds or presentment of such other proof of ownership of the Series 2007B Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007B Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2007B Bonds in any legal proceeding related to payment of insured amounts on the Series 2007B 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 2007B Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), through which it intends to write financial guarantee insurance in Mexico beginning in 2007. To date, MBIA Mexico has had no operating activity.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The 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 2007B 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 2007B Bonds. MBIA does not guaranty the market price of the Series 2007B Bonds nor does it guaranty that the ratings on the Series 2007B Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited), each as 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, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, 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, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month periods ended March 31, 2007 and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2007, 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, 2006; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2007B Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2007 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.

Debt Service Reserve Fund Surety Bond

MBIA Insurance Corporation (the "Insurer") has provided a commitment to issue a surety bond (the "Debt Service Reserve Fund Surety Bond"). The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Paying Agent to the Insurer to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Series 2007B Bonds, the Insurer will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the Series 2007B Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer 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 to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the NMFA. The NMFA and the Insurer plan to enter into a Financial Guaranty Agreement (the "Guaranty Agreement"). Pursuant to the Guaranty Agreement, the NMFA is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Paying Agent under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required deposits to the Operation and Maintenance Fund and the Debt Service Fund have been made.

Under the terms of the Guaranty Agreement, the Paying Agent is required to reimburse the Insurer, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the General Fund. No optional redemption of Obligations may be made until the Insurer's Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Paying Agent in the Debt Service Reserve Fund and is provided as an alternative to the NMFA depositing funds equal to the Debt Service Requirement for outstanding Series 2007B Bonds. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to Maximum Annual Debt Service for the Series 2007B Bonds and the premium therefor will be fully paid by the NMFA at the time of delivery of the Series 2007B Bonds.

THE PLAN OF FINANCING

Purposes of the Series 2007B Bonds

Proceeds of the Series 2007B Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain Governmental Units that will be or were used to finance certain Projects for such Governmental Units; (ii) retiring a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007B Bonds; (iii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007B Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007B Bonds. See APPENDIX F for a list of the Governmental Units and the outstanding balances of the Loans financed with the Series 2007B Bonds and information relating to the Governmental Units with the largest payments obligations.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2007B Bonds are presented in the following table.

Sources of Funds

Par Amount	$38,475,000
Original Issue Premium	960,037
Total	$39,435,037

Uses of Funds

Reimbursement of Loans[1]	$7,562,432
Repayment of Interim Borrowing	31,338,474
Costs of Issuance[2]	534,131
Total	$39,435,037

(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 municipal bond insurance and reserve fund surety and other miscellaneous costs. See "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2007B Bonds and all currently Outstanding Bonds for each fiscal year through their respective final maturity dates.

DEBT SERVICE FOR THE BONDS[(1)]

	Series 2007B Bonds				
Fiscal Year	Principal[(2)]	Interest[(3)]	Total	All Other Subordinate[(4)] Parity Bonds[(3)(4)]	Total Subordinate Parity Bonds
2008	$985,000	$1,606,071	$2,591,071	$15,952,622	$18,543,693
2009	3,315,000	1,734,175	5,049,175	17,648,250	22,697,425
2010	2,035,000	1,601,575	3,636,575	17,376,163	21,012,738
2011	2,000,000	1,520,175	3,520,175	17,022,100	20,542,275
2012	2,170,000	1,435,175	3,605,175	17,457,063	21,062,238
2013	1,950,000	1,342,950	3,292,950	17,592,813	20,885,763
2014	1,970,000	1,260,075	3,230,075	18,130,438	21,360,513
2015	1,710,000	1,176,350	2,886,350	18,022,338	20,908,688
2016	1,845,000	1,103,675	2,948,675	18,558,675	21,507,350
2017	2,300,000	1,020,650	3,320,650	18,872,475	22,193,125
2018	2,170,000	905,650	3,075,650	18,742,600	21,818,250
2019	2,015,000	797,150	2,812,150	17,893,150	20,705,300
2020	1,925,000	696,400	2,621,400	18,815,394	21,436,794
2021	2,045,000	600,150	2,645,150	18,026,994	20,672,144
2022	1,300,000	497,900	1,797,900	17,079,044	18,876,944
2023	1,200,000	432,900	1,632,900	16,941,625	18,574,525
2024	1,165,000	372,900	1,537,900	16,839,375	18,377,275
2025	1,845,000	314,650	2,159,650	16,653,375	18,813,025
2026	780,000	222,400	1,002,400	6,617,825	7,620,225
2027	825,000	183,400	1,008,400	4,090,038	5,098,438
2028	405,000	142,150	547,150	2,859,000	3,406,150
2029	430,000	121,900	551,900	2,857,250	3,409,150
2030	450,000	100,400	550,400	2,860,750	3,411,150
2031	475,000	77,900	552,900	2,859,000	3,411,900
2032	500,000	55,338	555,338	2,857,000	3,412,338
2033	325,000	31,588	356,588	2,859,500	3,216,088
2034	340,000	16,150	356,150	2,861,000	3,217,150
2035	–	–	–	2,861,250	2,861,250
Total	$38,475,000	$19,369,796	$57,844,796	$$351,207,103	$409,051,904

(1) Amounts are rounded to the nearest whole dollar.
(2) Payable on June 15 of each year. Includes any mandatory sinking fund payments.
(3) Payable on June 15 and December 15 of each year, commencing December 15, 2007.
(4) Represents principal of and interest on Bonds outstanding as of June 15, 2007.

(Source: Western Financial Group, LLC.)

The following table shows estimated available revenues pledged to the payment of the Subordinate Bonds, total debt service requirements for the Series 2007B Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on fiscal year 2005-06 releases of PPRF Revenues from the Senior Indenture and scheduled payments under the Agreements and Additional Pledged Loans and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Trust Estate—Subordinate Lien PPRF Revenues," "—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" and "INVESTMENT CONSIDERATIONS" for a list of some factors affecting Subordinate Lien PPRF Revenues.

ANNUAL DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE RATIOS

Fiscal Year	Subordinate Lien PPRF Revenues(1)	Agreement Revenues(2)(3)	Loan Repayments on Additional Pledged Loans	Estimated Total Revenues(3)	Total Debt Service Requirements(3)	Estimated Annual Coverage Ratios(4)
2008	$21,946,746	$18,327,937	$13,746,866	$54,021,549	$18,543,692	2.91
2009	22,412,234	22,473,032	3,752,032	48,637,298	22,697,425	2.14
2010	23,505,123	20,796,726	3,420,164	47,722,013	21,012,738	2.27
2011	24,331,282	20,321,416	3,288,090	47,940,788	20,542,275	2.33
2012	22,621,975	20,845,153	3,278,766	46,745,895	21,062,238	2.22
2013	22,999,427	20,669,405	3,174,068	46,842,901	20,885,763	2.24
2014	22,733,481	21,141,506	3,120,472	46,995,458	21,360,513	2.20
2015	23,009,013	20,694,252	2,229,580	45,932,844	20,908,688	2.20
2016	21,642,961	21,304,386	4,461,799	47,409,146	21,507,350	2.20
2017	23,224,949	21,987,698	1,257,240	46,469,888	22,193,125	2.09
2018	22,705,054	21,614,945	1,010,249	45,330,248	21,818,250	2.08
2019	22,508,198	20,510,866	927,731	43,946,795	20,705,300	2.12
2020	22,993,223	21,238,403	850,686	45,082,312	21,436,794	2.10
2021	21,487,613	20,479,513	792,895	42,760,021	20,672,144	2.07
2022	22,631,739	18,689,372	733,430	42,054,541	18,876,944	2.23
2023	21,300,092	18,390,194	732,046	40,422,331	18,574,525	2.18
2024	21,223,364	18,194,308	829,679	40,247,351	18,377,275	2.19
2025	20,900,740	18,628,794	824,479	40,354,013	18,813,025	2.15
2026	20,656,777	7,443,495	707,404	28,807,676	7,620,225	3.78
2027	20,530,924	4,921,399	514,224	25,966,546	5,098,438	5.09
2028	20,428,205	3,364,520	476,582	24,269,307	3,406,150	7.13
2029	20,429,373	3,368,736	477,406	24,275,516	3,409,150	7.12
2030	20,421,526	3,378,488	478,263	24,278,277	3,411,150	7.12
2031	20,421,736	3,383,299	479,156	24,284,191	3,411,900	7.12
2032	20,410,870	3,388,175	480,086	24,279,131	3,412,338	7.12
2033	19,879,944	3,200,344	469,797	23,550,085	3,216,088	7.32
2034	19,872,246	3,208,888	470,806	23,551,941	3,217,150	7.32
2035	19,876,229	2,854,438	471,857	23,202,524	2,861,250	8.11
Total	$607,105,046	$404,819,687	$53,455,853	$1,065,380,585	$409,051,899	

(1) Future collections of the Subordinate Lien PPRF Revenues are based on 2005-06 collections provided by the NMFA. As shown, the figures do not reflect any possible future reduction for payment of debt service on Senior Bonds. For a history of Subordinate Lien PPRF Revenues, see the chart entitled "Historic Subordinate Lien PPRF Revenues" under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Trust Estate."

(2) Represents scheduled payments of Agreements and does not reflect the prepayment of any such Agreements that may occur while the Subordinate Bonds are outstanding.

(3) Amounts are rounded to the nearest dollar. Amounts are preliminary based upon estimates of the debt service on the Series 2007B Bonds.

(4) The Estimated Annual Coverage Ratios are calculated using the 2005-06 Subordinate Lien PPRF Revenues, assuming that no additional Parity Bonds will be issued pursuant to the Indenture; and are subject to change.

(Source: NMFA and Western Financial Group LLC.)

NEW MEXICO FINANCE AUTHORITY

General

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 35 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

(a) 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;

(b) 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;

(c) to accept, administer, hold and use all funds made available to the NMFA from any sources;

(d) to borrow money and to issue bonds and provide for the rights of holders of the bonds;

(e) to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;

(f) to invest and reinvest its funds and to take and hold property as security for the investment of such funds;

(g) 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

(h) 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 who serve as the governing body of the NMFA. Seven of the members are ex officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the State. The seven ex officio members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the Governor and the appointed members serve four-year terms. Vacancies for the appointed members are filled by appointment of the Governor for the remainder of any unexpired term. Any appointed member is eligible for reappointment.

The governing body of the NMFA exercises and oversees the exercise of the powers of the NMFA. The governing body of the NMFA satisfies those responsibilities through monthly meetings and through the standing committees that the governing body has established. Those committees are advisory and have no authority to act on behalf of the governing body. Each committee reviews and makes recommendations to the governing body concerning matters assigned to it by the governing body.

The Executive Committee, which is chaired by the Chairman of the NMFA, Stephen R. Flance, provides oversight and direction relating to the operations of the NMFA. Other committees include the Audit Committee, chaired by Katherine B. Miller; the Finance/Loan Committee, chaired by Stephen R. Flance; the Economic Development Committee, chaired by Joanna Prukop; the Investment Committee, chaired by Craig Reeves; and the Contracts Committee, chaired by John Carey. The committees typically meet monthly.

The governing body has also established written policies concerning the exercise of the powers of the NMFA. The written policies serve as ongoing directions to staff and consultants with respect to standards to be applied in the conduct of the business of the NMFA.

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Governing Body and Key Staff Members

Current members of the NMFA, and their respective occupations and term expiration dates, are presented below:

Name	Occupation	Term Expires
Gary Bland(1)	State Investment Officer, State Investment Council	not applicable
John Carey(2)	Retired, Former President and CEO, Association of Commerce and Industry	01/01/08
Ron Curry(1)	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance(2) (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	12/31/09
William Fulginiti(1) (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia(2)	President, Garcia Honda Albuquerque, New Mexico	01/01/09
Paul Gutierrez(1)	Executive Director, New Mexico Association of Counties	not applicable
Katherine B. Miller(1)	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Fred Mondragon(1)	Secretary, Economic Development Department, State of New Mexico	not applicable
Joanna Prukop(1) (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Jennifer Taylor(2)	Associate Vice President for Business and Finance, New Mexico State University	12/31/07
Craig Reeves(2) (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	12/31/07

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(1) *Ex officio* member. An *ex officio* member may designate an alternative member. Alternate members may attend meetings and vote on all matters considered by the NMFA.

(2) Appointed by the Governor of the State and serves at the pleasure of the Governor.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2007B Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development 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, New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

John Duff, Chief Operating Officer. Mr. Duff joined the NMFA as its Chief Investment Officer in February 2006 and became its Chief Operating Officer in June 2007. Mr. Duff has more than 20 years experience in investment management, financial management, and public accounting. He has held positions as COO and CFO of publicly held corporations and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. As Chief Operating Officer, Mr. Duff is responsible for administering the day-to-day operations of the NMFA. Mr. Duff has a Bachelor of Arts degree in economics from Oberlin College and a Master of Business Administration in accounting and finance from Miami University.

Joseph Gosline, Chief Financial Officer. Mr. Gosline joined the NMFA in October 2005. Mr. Gosline has 15 years of experience in financial management. He previously worked with the NMFA for 5 1/2 years, leaving to work for one year at a financial company that 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 Bachelor of Business Administration in accounting from the University of Miami, Florida and a Master of Business Administration in finance from the College of Santa Fe.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 17 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for over $300 million in financings for the NMFA. Mr. Turner earned a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration from New Mexico State University.

Reynold E. Romero, General Counsel. Mr. Romero joined the NMFA in April 2007 as General Counsel. Prior to joining the NMFA, Mr. Romero served as General Counsel for the New Mexico Department of Transportation (NMDOT) for over three years and previously served as Deputy General Counsel and Assistant General Counsel for NMDOT. Mr. Romero has over 28 years of legal practice in transportation law, including eminent domain, property law, and procurement. Mr. Romero handled complex litigation and negotiated complex transactions for the NMDOT such as the purchase of the rail line from BNSF for the commuter rail project in New Mexico.

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.

Legislative Oversight

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, among other things: (i) meets on a regular basis to receive and review reports from the NMFA; (ii) monitors and provides assistance and advice on the public project financing program of the NMFA; (iii) oversees and monitors State and local government capital planning and financing; (iv) provides advice and assistance to the NMFA on planning, setting priorities for and financing of State and local capital projects; (v) undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and (vi) 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.

The Public Project Revolving Fund Program

General. The Act created the Public Project Revolving Fund (the "PPRF") Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of $1 million per project require specific authorization by the Legislature. As of March 31, 2007, the NMFA had made 595 PPRF loans totaling approximately $1,026,645,216. To implement the PPRF Program, the NMFA has been granted the following specific powers:

(a) to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;

(b) 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;

(c) 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;

(d) 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;

(e) 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;

(f) 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;

(g) 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;

(h) 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;

(i) 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

(j) 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 bond programs pursued pursuant to the Senior Lien Indenture and the Indenture are part of the PPRF Program.

Contingent Liquidity Account. In an effort to pursue its policy of maintaining a sufficient cash balance to meet the borrowing needs of eligible entities and improving the fund and cash balances of the Public Project Revolving Fund program, the NMFA established a contingency account (the "Contingent Liquidity Account") effective July 1, 2006. Although it will not be pledged to the Series 2007B Bonds, or any other NMFA bonds, the Contingent Liquidity Account is intended to enhance the NMFA's ability to meet the cash-flow needs of the PPRF program. Funds from the Contingent Liquidity Account may be used to pay debt service on NMFA bonds; however, such funds may also be used for other purposes, including but not limited to SWAP termination payments (to date the NMFA has not entered into any counterparty agreements related to the PPRF), loan originations, or to address other purposes as determined by the NMFA. The Contingent Liquidity Account received an initial funding of $20,000,000. Upon approval of the NMFA, the Contingent Liquidity Account may receive annual increases thereafter of an amount approximately equal to 25% of the Governmental Gross Receipts Tax funds received by the NMFA at the end of the fiscal year. In future years, the NMFA plans to annually evaluate the level of the Contingent Liquidity Account to determine the amount, if any, of subsequent deposits.

Temporary Borrowing. The NMFA has recently entered into an arrangement with Bank of America, N.A. (the "Short-term Lender") for the Short-term Lender to provide to the NMFA an amount up to $100,000,000 to reimburse the NMFA for Loans made to eligible entities that are incurred prior to the issuance of a Series of Bonds. Once the amounts are advanced, the NMFA has up to 180 days to repay the advancement. The short-term borrowings are secured by proceeds of Bonds that are anticipated to be issued subsequent to the advances. The NMFA is entering into such an arrangement to assist it with its cash flows. Such short-term borrowings are not secured by the Trust Estate.

Other Programs and Projects

The NMFA also participates in or administers other programs designed to provide financing to local governmental entities and state agencies for public projects. Such programs are not secured by the Trust Estate but are secured by other sources of revenues. The following table sets forth the different types of programs and the amount of bonds outstanding under such programs.

Program	Project	Original Principal Amount	Amount Currently Outstanding	Scheduled Final Maturity
Worker's Compensation	Administrative Building	$4,310,000	$2,750,000	9/1/2016
Cigarette Tax	University of New Mexico Health Sciences Building	39,035,000	25,225,000	4/1/2019
Cigarette Tax	University of New Mexico Health Sciences Building	10,000,000	8,915,000	4/1/2019
Cigarette Tax	Behavioral Health Facilities	2,500,000	2,375,000	5/15/2026
Transportation	Highways	700,000,000	700,000,000	6/15/2024
Transportation	Highways	237,950,000	162,330,000	6/15/2024
Transportation	Highways	200,000,000	200,000,000	6/15/2026
Transportation	Highways	150,000,000	150,000,000	12/15/2026
Transportation	Highways	40,085,000	37,735,000	12/15/2026
Transportation	Highways	220,000,000	220,000,000	12/15/2026
Transportation	Highways	50,400,000	50,400,000	12/15/2026

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 2007B 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 2007B Bonds or in any way contesting or affecting the validity or enforceability of the Series 2007B Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA will deliver non-litigation certificates as to the foregoing prior to the issuance of the Series 2007B Bonds.

UNDERWRITING

The Underwriters have agreed to purchase the Series 2007B Bonds from the NMFA pursuant to a Bond Purchase Agreement dated June 28, 2007 (the "Bond Purchase Agreement"), at an aggregate price of $39,248,406.20 (being the aggregate principal amount of $38,475,000.00 plus an original issue premium of $960,037.45 and less an Underwriters' discount of $186,631.25). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2007B 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 2007B 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

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2007B Bonds for interest thereon to be excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007B Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2007B Bonds. The NMFA and the Governmental Units have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2007B Bonds from gross income for Federal income tax purposes.

In the opinion of Brownstein Hyatt Farber Schreck, P.C., Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Series 2007B Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the Series 2007B Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, the interest on the Series 2007B Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. Interest on the Series 2007B Bonds owned by corporations will, however, be taken into account in determining the alternative minimum tax imposed by Section 55 of the Code on 75 percent of the excess of adjusted current earnings over alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction).

In rendering its opinion, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications, and compliance with certain covenants of the NMFA and the Governmental Units. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the NMFA and the Governmental Units. In addition, Bond Counsel has not been engaged, and will not undertake, to monitor the NMFA's and the Governmental Units' compliance with the covenants or to inform any person as to whether the covenants are being complied with; nor has Bond Counsel undertaken to determine or to inform any person as to whether any actions taken or not taken, or events occurring or not occurring, after the date of the issuance of the Series 2007B Bonds may affect the federal tax-exempt status of the interest on the Series 2007B Bonds.

Bond Counsel is also of the opinion that the difference between the principal amount of the Series 2007B Bonds maturing on June 15 of the years 2008 through 2030 (collectively, the "Premium Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest basis over the term of each Premium Bond. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Series 2007B Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2007B Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2007B Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2007B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2007B Bonds. Prospective purchasers of the Series 2007B Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series 2007B Bonds may affect the tax status of interest on the Series 2007B Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Series 2007B Bonds from gross income for Federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Series 2007B Bonds, or the interest thereon, if any action is taken with respect to the Series 2007B Bonds or the proceeds thereof upon the advice or approval of bond counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Series 2007B Bonds is excluded from gross income for Federal income tax purposes, a Series 2007B Bondholder's Federal, State or local tax liability may otherwise be affected by the ownership or disposition of the Series 2007B Bonds. The nature and extent of these other tax consequences will depend upon the Series 2007B Bondholder's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series 2007B Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2007B Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2007B Bonds, (iii) interest on the Series 2007B Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Series 2007B Bonds, may be subject to Federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Series 2007B Bonds. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Unless separately engaged, Bond Counsel is not obligated to defend the NMFA, the Governmental Units or the Series 2007B Bondholders regarding the tax-exempt status of the Series 2007B Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the NMFA, the Governmental Units and their respective appointed counsel, including the Series 2007B Bondholders, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of the IRS positions with which the NMFA or the Governmental Unites legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2007B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2007B Bonds, and may cause the NMFA, the Governmental Units or the Series 2007B Bondholders to incur significant expense.

Bond Counsel is also of the opinion that interest on the Series 2007B Bonds is exempt from State of New Mexico personal income taxes as described herein.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as "APPENDIX D—FORM OF OPINION OF BOND COUNSEL."

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Series 2007B Bonds. Prospective purchasers or owners should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in New Mexico and other states.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2007B Bonds, Brownstein Hyatt Farber Schreck, P.C., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in substantially the form included in APPENDIX D. Certain legal matters will 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 Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Disclosure Counsel to the NMFA. The General Counsel to the NMFA will deliver a non-litigation certificate for 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 2007B 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, 2006, included in APPENDIX A of this Official Statement, have been audited by Meyners & Company, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated October 6, 2006. Meyners & Company, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

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 Rule 15c2-12 of the Securities and Exchange Commission (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 2007B 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 2007B 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. See “APPENDIX G—CONTINUING DISCLOSURE UNDERTAKING” herein.

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 2007B Bonds. See APPENDIX F for a discussion of Governmental Units with the largest outstanding principal loan balances.

RATINGS

Moody’s Investor’s Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”) and Fitch Ratings (“Fitch”) have assigned municipal bond ratings of “Aaa,” “AAA” and “AAA,” respectively, to the Series 2007B Bonds with the understanding that upon delivery of the Series 2007B Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2007B Bonds will be issued by MBIA Insurance Corporation. In addition, Moody’s, S&P and Fitch have assigned underlying (i.e., without regard to a municipal bond insurance policy) long-term ratings of “Aa3,” “A+” and “AA–,” respectively, to the Series 2007B Bonds. An explanation of the significance of such ratings may be obtained from Moody’s, S&P and Fitch.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2007B 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 2007B Bonds may have an adverse effect on the market price of the Series 2007B Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2007B Bonds any proposed revision or withdrawal of the ratings on the Series 2007B Bonds, or to oppose any such proposed revision or withdrawal.

INVESTMENT CONSIDERATIONS

Availability of Subordinate Lien Revenues

The amount of Subordinate Lien PPRF Revenues actually received by the NMFA on any June 1 may be affected by several factors. Among other things, 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 "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—The Governmental Gross Receipts Tax."

In addition, 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.

Pursuant to Section 7-9-4.3, NMSA 1978, revisions to laws of the State affecting, among other things, tax rates, taxed activities and distributions of Governmental Gross Receipts Taxes could be adopted in the future by the State legislature. There is no assurance that any future revisions to State laws will not adversely affect, among other things, tax rates, activities now subject to the governmental gross receipts tax or distribution of governmental gross receipts tax revenues to the NMFA. However, the State has pledged to and agreed with holders of any bonds or notes issued under the Act that the State will not limit or alter the rights vested by the Act in the NMFA to fulfill the terms of any agreements made with the holders thereof or in any way impair the rights and remedies of those holders until the bonds or notes together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information in this Official Statement is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained in this Official Statement do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated as such, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2007B Bonds.

APPROVAL BY THE NMFA

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

NEW MEXICO FINANCE AUTHORITY

By: /s/ Stephen R. Flance
Stephen R. Flance, Chairman

By: /s/ William C. Sisneros
William C. Sisneros,
Chief Executive Officer

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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NEW MEXICO FINANCE AUTHORITY

Financial Statements for the Year Ended June 30, 2006, and Independent Auditors' Report

MEYNERS + COMPANY, LLC
Certified Public Accountants/
Consultants to Business

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E cpa@meyners.com

INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying basic 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, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2006, and the respective changes in the 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.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements and combining and individual fund financial statements of the Authority. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements, including the Schedule of Changes in Assets and Liabilities of Agency Funds. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

October 6, 2006

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

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

Financial Highlights

- The Authority's government-wide net assets increased by $4,528,247 in fiscal year 2006 from 2005.
- The Authority's program revenues increased by $1,059,947 in fiscal year 2006 from 2005.
- The total cost of all Authority programs was $70,163,037, a decrease of $26,772,168 over 2005.

Authority Highlights

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

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2006, the PPRF program made approximately 72 loans totaling approximately $177.4 million, compared to 58 loans totaling approximately $187.6 million in FY2005.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2006, the DWRLF made one loan totaling $6.56 million compared to five loans totaling $12.6 million in FY2005. The FY2006 binding commitments numbered four (4), approximating $14.2 million, compared to four totaling approximately $20.5 million, in FY2005.

Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2006, the Authority Board has approved 14 loans totaling $7.75 million.

During FY2006, the Authority issued $168.4 million in bonds to provide reimbursement to the Public Projects Revolving Loan Fund, refund certain PPRF bonds issued in prior years and provide funds for the Behavioral Health Capital Fund.

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 FY2006, 15 grants closed for a total of $4,182,000, compared to 30 grants totaling $11,457,000 in FY2005.

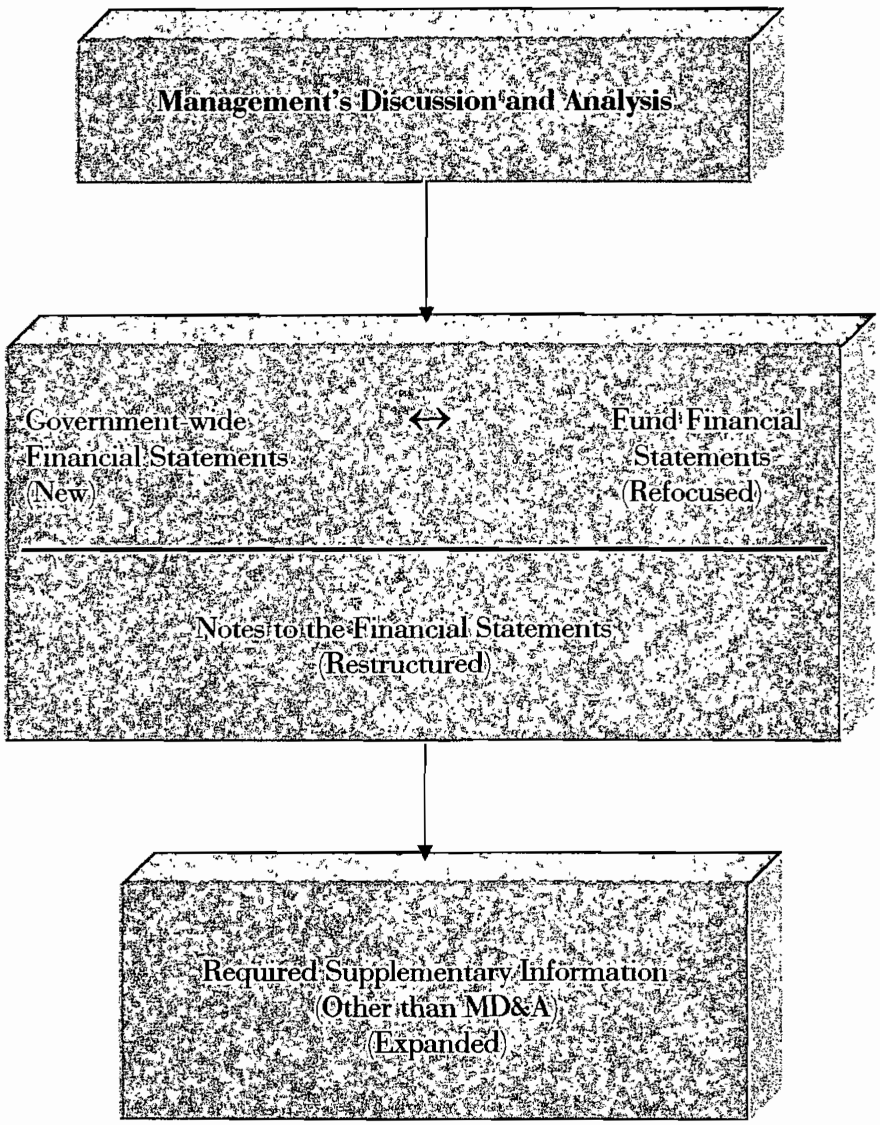
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Using This Annual Report

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

Using This Annual Report - continued



Management's Discussion and Analysis

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

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

Government-Wide Financial Statements - continued

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities - All of the Authority's stand-alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the Authority are the Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capital Improvement Financing and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities - The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, Behavioral Health Clinic Financing, the GRIP Administrative Fund and the General Operating Fund.

Fund Financial Statements

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

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

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

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

Notes to the Financial Statements

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

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis Of The Authority As A Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2006. FY2006 net assets for Governmental Activities and Business-type Activities were ($73,470,696) and $179,882,110, respectively. Total Authority net assets for fiscal year 2006 are $106,411,414. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2006	2005	2006	2005	2006	2005
Current and other assets	$	53,624,471	75,171,015	32,697,069	248,080,457	86,321,540	323,251,472
Capital and non-current assets		3,608,898	4,047,008	862,702,716	476,415,138	866,311,614	480,462,146
Total assets	$	57,233,369	79,218,023	895,399,785	724,495,595	952,633,154	803,713,618
Current liabilities	$	11,947,088	5,267,723	143,670,717	101,828,939	155,617,805	107,096,662
Long-term liabilities		118,756,977	134,928,465	571,846,958	459,805,324	690,603,935	594,733,789
Total liabilities		130,704,065	140,196,188	715,517,675	561,634,263	846,221,740	701,830,451
Net Assets:							
Invested in capital assets		232,249	118,808	360,882	140,719	593,131	259,527
Restricted		(73,702,945)	(61,096,973)	176,161,533	159,955,266	102,458,588	98,858,293
Unrestricted		-	-	3,359,695	2,354,989	3,359,695	2,354,989
Total net assets		(73,470,696)	(60,978,165)	179,882,110	162,861,332	106,411,414	101,883,167
Total liabilities and net assets	$	57,233,369	79,218,023	895,399,785	724,495,595	952,633,154	803,713,618

Changes in Net Assets: The Authority's change in net assets for fiscal year 2006 was an increase of $4,528,247 (Table A-2). A significant portion, twenty-five percent (25%), of the Authority's revenue comes from Tax Revenue. Six percent (6%) comes from other operating grants and contributions, and thirteen percent (13%) from interest and investment income. Twenty-six percent (26%) comes from state general fund appropriations, and charges for services and other revenue comprise thirty percent (30%) of total revenue.

Table A-2
Changes in the Department's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2006	2005	**2006**	2005	**2006**	2005
Revenues:							
Program		**845,680**	1,143,328	**24,051,276**	22,779,749	**24,983,024**	23,923,077
General		**21,676,344**	28,942,690	**28,031,916**	23,119,623	**49,708,260**	52,062,313
Total revenues		**22,522,024**	30,086,018	**52,083,192**	45,899,372	**74,691,284**	75,985,390
Expenses		**35,036,050**	72,279,123	**35,040,919**	24,656,082	**70,163,037**	96,935,205
Net revenues (loss) before transfers and reversions		**(12,514,026)**	(42,193,105)	**17,042,273**	21,243,290	**4,528,247**	(20,949,815)
Transfers and reversions		**21,495**	1,588,800	**(21,495)**	(1,588,800)	**-**	-
(Decrease) increase in net assets		**(12,492,531)**	(40,604,305)	**17,020,778**	19,654,490	**4,528,247**	(20,949,815)
Net assets, beginning of year		**(60,978,165)**	(20,373,860)	**162,861,332**	143,206,842	**101,883,167**	122,832,982
Net assets, end of year	$	**(73,470,696)**	(60,978,165)	**179,882,110**	162,861,332	**106,411,414**	101,883,167

The decline in governmental net assets is the result of certain grant funds (water wastewater grant fund, emergency drought relief, water project fund) "winding down". There are no additional funds being appropriated to these programs and, as grant recipients draw down funds on their grants, there is an on-going decline in the assets (cash). Business-type (enterprise) activities continue to grow in terms of net assets because of the expansion of the PPRF program and the continual growth in the loan portfolio.

The overall decline in the expenses of the Authority is directly related to the decreasing activity in the funds mentioned above.

Governmental-Type Activities

The Authority's total expenditures for governmental-type activities during the fiscal year 2006 were $35,036,050. The highest area of expenditures, $15,335,743, forty four percent (44%), was in the area of Debt Service.

The second highest area of expenditures within the Authority is in the category of Grant Expenses:

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $35,126,987. The majority of business-type expenditures, $24,036,583, sixty eight percent (68%), was in the area of Debt

Business Type Activities - continued

Service. Within the operating cost category, salaries and benefits comprised six percent (6%) of total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were twenty percent (20%) of total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2006, the Authority had invested a total of $360,882 net of depreciation in business-type activities and $232,249 in capital assets for government-type activities. During FY2006, capital outlay expenditures totaled $453,360. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

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

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2006, the total amount outstanding was $700.9 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

During the fiscal year, the Authority issued $168.4 million in PPRF debt, primarily to directly fund loans, reimburse the PPRF loan fund for loans already made or to advance refund certain PPRF bond issues.

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	Aa2
Standard & Poor's	AA
Fitch	AA

The Authority received bond ratings increases from both Moody's and Standard and Poor's during FY2006.

Economic Factors and Next Year's Budgets and Rates

The FY2006 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

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

The Authority's primary operating budget for FY2006 was $6,179,829, compared to the FY2005 budget of $4,515,518, a 37% increase. This was due to the addition of new programs, increased staffing levels, the addition of office space and major upgrades in both computer hardware and software.

Contacting the Authority's Financial Management

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

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and equivalents:			
Unrestricted	$ 28,236,889	15,987,199	44,224,088
Restricted	23,117,927	208,621,775	231,739,702
Receivables:			
Tax revenue	2,097,341	6,101,447	8,198,788
Interest	9,535	4,132,123	4,141,658
Grant and other	779	4,003,663	4,004,442
Due from other state agencies	-	72,917	72,917
Due from other funds (Note 5) [Internal Balances]	-	2,031,406	2,031,406
Administrative fees receivable	-	368,314	368,314
Loans receivable, net of allowance (Note 3)	669,000	574,115,317	574,784,317
Securities (Note 4)	-	11,705,377	11,705,377
Restricted asset - escrow	-	60,166,010	60,166,010
Capital Assets, net of depreciation	232,249	360,882	593,131
Deferred costs, net	2,869,649	7,716,745	10,586,394
Other assets	-	16,610	16,610
TOTAL ASSETS	57,233,369	895,399,785	952,633,154
LIABILITIES:			
Accounts payable and accrued liabilities	155,569	1,347,781	1,503,350
Accrued payroll, fringe benefits and compensated absences (Note 11)	9,426	238,674	248,100
Accrued interest	707,547	1,944,197	2,651,744
Debt service payable	111,140	34,302,486	34,413,626
Notes payable	2,000,000	-	2,000,000
Funds held for others	-	69,040,959	69,040,959
Due to other state agencies (Note 5)	-	681,620	681,620
Due to other funds [Internal Balances]	2,031,406	-	2,031,406
Deferred revenue	-	3,260,000	3,260,000
Bonds payable, current, net (Note 8)	6,932,000	32,855,000	39,787,000
Bonds payable, noncurrent, net of bond discount/premium (Note 8)	118,756,977	571,846,958	690,603,935
TOTAL LIABILITIES	130,704,065	715,517,675	846,221,740
NET ASSETS:			
Invested in capital assets	232,249	360,882	593,131
Restricted for:			
Debt service	(109,626,690)	-	(109,626,690)
Program funds	35,923,745	176,161,533	212,085,278
Unrestricted	-	3,359,695	3,359,695
TOTAL NET ASSETS	(73,470,696)	179,882,110	106,411,414
TOTAL LIABILITIES AND NET ASSETS	$ 57,233,369	895,399,785	952,633,154

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

		Governmental Activities	Business-type Activities	Total
EXPENSES:				
Capital financing	$	35,036,050	35,040,919	70,076,969
PROGRAM REVENUES:				
Charges for services		-	20,680,142	20,680,142
Operating grants and contributions		845,680	3,371,134	4,216,814
NET PROGRAM EXPENSES		(34,190,370)	(10,989,643)	(45,180,013)
GENERAL REVENUES:				
Governmental gross receipts and gross receipts taxes		-	18,656,645	18,656,645
Investment earnings		2,109,460	7,375,271	9,484,731
State General Fund Appropriations		19,566,884	-	19,566,884
Other revenue		-	2,000,000	2,000,000
TOTAL GENERAL REVENUES		21,676,344	28,031,916	49,708,260
TRANSFERS		21,495	(21,495)	-
CHANGE IN NET ASSETS		(12,492,531)	17,020,778	4,528,247
NET ASSETS, BEGINNING OF FISCAL YEAR		(60,978,165)	162,861,332	101,883,167
NET ASSETS, END OF FISCAL YEAR	$	(73,470,696)	179,882,110	106,411,414

See Notes to Financial Statements.

AS OF JUNE 30, 2006

	Major Funds							
	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:								
Unrestricted:								
Cash and cash equivalents	$ -	4,277,573	6,102,620	44,062	5,421,506	10,079,274	2,311,854	28,236,889
Receivables:								
Tax receivable	-	540,641	500,000	699,509	-	-	357,191	2,097,341
Interest	-	-	-	-	-	-	9,535	9,535
Other receivables	-	-	-	-	-	-	779	779
Loans receivable	-	-	-	-	-	-	669,000	669,000
	-	4,818,214	6,602,620	743,571	5,421,506	10,079,274	3,348,359	31,013,544
Restricted:								
Cash and cash equivalents held for others by trustee:								
Debt service	-	-	-	-	-	-	620,035	620,035
Bond reserve	-	698,852	2,774,721	1,516,890	-	-	-	4,990,463
Investments	-	-	-	-	6,002,547	11,504,882	-	17,507,429
TOTAL ASSETS	$ -	5,517,066	9,377,341	2,260,461	11,424,053	21,584,156	3,968,394	54,131,471
LIABILITIES:								
Accounts payable	$ -	-	-	-	5,381	58,501	101,113	164,995
Debt service payable	111,140	-	-	-	-	-	-	111,140
Notes payable	-	2,000,000	-	-	-	-	-	2,000,000
Due to other funds	1,275,483	-	-	-	18,157	10,001	727,765	2,031,406
TOTAL LIABILITIES	1,386,623	2,000,000	-	-	23,538	68,502	828,878	4,307,541
FUND BALANCES:								
Reserve for debt service	(1,386,623)	-	9,377,341	2,260,461	-	-	2,439,654	12,690,833
Unreserved:								
Special revenue funds	-	3,517,066	-	-	11,400,515	21,515,654	699,862	37,133,097
TOTAL FUND BALANCES	(1,386,623)	3,517,066	9,377,341	2,260,461	11,400,515	21,515,654	3,139,516	49,823,930
TOTAL LIABILITIES AND FUND BALANCES	$ -	5,517,066	9,377,341	2,260,461	11,424,053	21,584,156	3,968,394	54,131,471

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	49,823,930
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
The cost of capital assets is		309,895
Accumulated depreciation is		(77,646)
Total capital assets, net of depreciation		232,249
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds, amortized over the life of the respective bond. Deferred costs, net, are		2,869,649
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term and other liabilities at year end consist of:		
Bonds payable, net of premium of $2,169,977		(125,688,977)
Accrued interest payable		(707,547)
Total long-term and other liabilities		(126,396,524)
Net assets of governmental activities (Statement of Net Assets)	$	(73,470,696)

YEAR ENDED JUNE 30, 2006

	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	$ -	-	-	-	845,680	-	-	845,680
Interest on loans	-	-	-	-	-	-	52,765	52,765
Interest on investments	14,822	163,870	433,423	102,344	428,470	794,062	119,706	2,056,697
TOTAL REVENUES	14,822	163,870	433,423	102,344	1,274,150	794,062	172,471	2,955,142
EXPENDITURES:								
Current:								
Administrative fee	-	-	45,255	154,778	-	-	17,169	217,202
Professional services	-	10,338	1,122	48,158	45,257	184,588	235,019	524,482
Salaries and fringe benefits	-	-	-	-	108,263	69,121	123,413	300,797
In-state travel	-	-	-	-	4,706	2,852	11,759	19,317
Out-of-state travel	-	-	-	-	545	564	4,950	6,059
Maintenance and repairs	-	-	-	-	1,437	1,000	1,831	4,268
Operating costs	-	-	-	-	29,791	21,670	48,050	99,511
Grant expenses	-	-	-	-	5,577,998	8,284,822	171,054	14,033,874
Capital outlay	-	-	-	-	45,130	38,480	78,408	162,018
Debt service - principal	175,000	600,000	1,320,000	5,690,000	-	-	1,286,000	9,071,000
Debt service - interest	3,044,015	31,500	1,167,707	1,234,888	-	-	786,633	6,264,743
TOTAL EXPENDITURES	3,219,015	641,838	2,534,084	7,127,824	5,813,127	8,603,097	2,764,286	30,703,271
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,204,193)	(477,968)	(2,100,661)	(7,025,480)	(4,538,977)	(7,809,035)	(2,591,815)	(27,748,129)
OTHER FINANCING SOURCES (USES):								
State General Fund appropriations	-	1,538,727	6,000,000	9,767,447	-	-	2,260,710	19,566,884
Transfers (to) from other funds	(802,800)	(261,265)	-	1,085,000	(16,558)	(1,945)	19,063	21,495
Transfers (to) other state agencies	-	(94,150)	(9,797,728)	(2,897,518)	-	-	(784,264)	(13,573,660)
NET OTHER FINANCING SOURCES (USES)	(802,800)	1,183,312	(3,797,728)	7,954,929	(16,558)	(1,945)	1,495,509	6,014,719
NET CHANGE IN FUND BALANCES	(4,006,993)	705,344	(5,898,389)	929,449	(4,555,535)	(7,810,980)	(1,096,306)	(21,733,410)
FUND BALANCES, June 30, 2005	2,620,370	2,811,722	15,275,730	1,331,012	15,956,050	29,326,634	4,235,822	71,557,340
FUND BALANCES, June 30, 2006	$ (1,386,623)	3,517,066	9,377,341	2,260,461	11,400,515	21,515,654	3,139,516	49,823,930

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$ (21,733,410)
Amounts reported for governmental activities in the Statement of Activities are different because:	
In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease in the liabilities for the fiscal year was:	
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities, these payments are reported as a reduction of the liability. In the current period, these principal payment amounts were	9,246,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was	50,310

YEAR ENDED JUNE 30, 2006

Change from prior year in amortization of bond issuance costs:

Deferred issuance costs FY05 (p. 17 PY)	$ 3,032,008	
Deferred issuance costs FY06 (p. 17 CY)	2,869,649	
		$ (162,359)

Change from prior year in amorization of bond premium/discount:

Amortization of bond premium/discount FY05 (p. 62 PY)	2,163,465	
Amortization of bond premium/discount FY06 (p. 64 CY)	2,169,977	
		(6,512)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:

Capital outlay	162,018
Depreciation expense	(48,578)
Excess of capital outlay over depreciation expense	113,440
Change in net assets of governmental activities (Statement of Activities)	$ (12,492,531)

AS OF JUNE 30, 2006

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	Total
ASSETS:										
Current:										
Cash and cash equivalents	$ 229,446	2,849,858	10,096,279	1,850,289	-	78,701	-	882,626		15,987,199
Receivables:										-
Tax revenue	-	6,080,078	3,460	-	17,909	-	-	-	-	6,101,447
Interest	-	4,038,897	93,226	-	-	-	-	-	-	4,132,123
Grant and other	166,751	51,436	3,785,476	-	-	-	-	-	-	4,003,663
Due from other state agencies	-	-	-	72,917	-	-	-	-	-	72,917
Due from other funds	970,999	1,275,483	-	-	-	-	-		-	2,246,482
Administrative fees receivable	357,314	-	11,000	-	-	-	-	-	-	368,314
Total current assets	1,724,510	14,295,752	13,989,441	1,923,206	17,909	78,701	-	882,626	-	32,912,145
Loans receivable, net of allowance	-	551,812,951	17,329,581		4,541,415	431,370	-	-	-	574,115,317
Securities	-	11,705,377	-	-	-	-	-	-	-	11,705,377
Restricted assets - cash and cash equivalents	-	196,799,266	5,879,803	-	2,893,651	11,102	252,557	-	2,785,396	208,621,775
Escrow	-	60,166,010		-	-	-	-	-	-	60,166,010
Depreciable property and equipment, net	121,412	114,566	43,520	81,384	-	-	-	-	-	360,882
Deferred charges	-	7,663,195	-	-	-	53,550	-	-		7,716,745
Other assets	16,610	-	-	-	-	-	-	-	-	16,610
TOTAL ASSETS	$ 1,862,532	842,557,117	37,242,345	2,004,590	7,452,975	574,723	252,557	882,626	2,785,396	895,614,861
LIABILITIES:										
Accounts payable and other liabilities	$ 41,868	1,076,852	167,415	6,286	1,188	53,715	457		-	1,347,781
Accrued payroll, fringe benefits										
and compensated absences	204,235	22,737	4,872	6,830	-	-	-		-	238,674
Accrued interest payable	-	1,921,238	-	-	-	-	-	-	22,959	1,944,197
Debt service payable		34,103,265	156,403	-	34,870	7,948	-	-	-	34,302,486
Funds held for others	-	67,165,260	1,607,750	-	17,949	-	250,000	-	-	69,040,959
Due to other state agencies	4,294	-	677,326	-	-	-	-	-	-	681,620
Due to other funds	-	101,415	23,472	41,118	-	289	48,756	26	-	215,076
Deferred revenue	-	3,260,000	-	-	-	-	-	-	-	3,260,000
Bonds payable, current, net	-	32,730,000	-	-	-	-	-	-	125,000	32,855,000
Bonds payable, noncurrent, net	-	569,471,958	-	-	-	-	-	-	2,375,000	571,846,958
TOTAL LIABILITIES	250,397	709,852,725	2,637,238	54,234	54,007	61,952	299,213	26	2,522,959	715,732,751
NET ASSETS:										
Invested in capital assets, net of related debt	121,412	114,566	43,520	81,384	-	-	-	-	-	360,882
Restricted for:										
Program funds	-	132,589,826	34,561,587	-	7,398,968	512,771	(46,656)	882,600	262,437	176,161,533
Unrestricted	1,490,723	-	-	1,868,972	-	-	-	-	-	3,359,695
TOTAL NET ASSETS	1,612,135	132,704,392	34,605,107	1,950,356	7,398,968	512,771	(46,656)	882,600	262,437	179,882,110
TOTAL LIABILITIES AND NET ASSETS	$ 1,862,532	842,557,117	37,242,345	2,004,590	7,452,975	574,723	252,557	882,626	2,785,396	895,614,861

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	Total
INTEREST EARNINGS:										
Interest on loans	$ -	16,651,654	575,035	-	-	12,674	-		-	17,239,363
Interest on investments	63,420	6,509,778	505,658	51,004	200,478	3,322	2,557	8,505	30,549	7,375,271
TOTAL INTEREST EARNINGS	63,420	23,161,432	1,080,693	51,004	200,478	15,996	2,557	8,505	30,549	24,614,634
INTEREST EXPENSE:										
Debt service - interest expense	-	23,989,518	-	-	-	-	-	-	47,065	24,036,583
NET INTEREST EARNINGS	63,420	(828,086)	1,080,693	51,004	200,478	15,996	2,557	8,505	(16,516)	578,051
NON-INTEREST EARNINGS:										
Tax revenue	-	18,656,645	-	-		-		-	-	18,656,645
Federal grant revenue		-	3,371,134	-	-	-	-		-	3,371,134
Administrative fees	1,648,679	-	40,948	1,750,000	-	1,152	-	-	-	3,440,779
TOTAL NON-INTEREST EARNINGS	1,648,679	18,656,645	3,412,082	1,750,000	-	1,152	-		-	25,468,558
NON-INTEREST EXPENSE:										
Grant expense		533,548	-	-		-		-		533,548
Bond issuance costs		552,302	-	-	-		-		-	552,302
Administrative fees	-	141,695	-			-		-	-	141,695
Professional services	421,675	2,104,587	238,747	251,931	383,474	8,849	33,488	879	136	3,443,766
Salaries and fringe benefits	1,069,463	700,489	152,735	188,595	-		-		-	2,111,282
In-state travel	10,636	22,390	3,650	7,274	-	3	1,081	26	-	45,060
Out of state travel	11,471	11,176	2,977	3,977		-	51	-	-	29,652
Maintenance and repairs	5,652	7,509	5,081	2,370	-	172	314	-		21,098
Supplies	27,676	30	5,669	6,924	-	133	4,916	-	-	45,348
Operating costs	167,213	155,137	89,889	39,185		345	1,084	-	-	452,853
Depreciation	25,279	18,491	12,355	15,052	-	-	-	-	-	71,177
TOTAL NON-INTEREST EXPENSE	1,739,065	4,247,354	511,103	515,308	383,474	9,502	40,934	905	136	7,447,781
NON-OPERATING REVENUES (EXPENSES):										
Miscellaneous revenue	-	-	2,000,000	-	-	-	-	-	-	2,000,000
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS	(26,966)	13,581,205	5,981,672	1,285,696	(182,996)	7,646	(38,377)	7,600	(16,652)	20,598,828
TRANSFERS:										
Transfers in (out)	746,524	(1,012,705)	(18,064)	(875,000)	-	(16,339)	-	875,000	279,089	(21,495)
Transfers from (to) other state agencies	-	(696,524)	(2,860,031)	-	-	-	-	-	-	(3,556,555)
TOTAL TRANSFERS	746,524	(1,709,229)	(2,878,095)	(875,000)	-	(16,339)		875,000	279,089	(3,578,050)
CHANGE IN NET ASSETS	719,558	11,871,976	3,103,577	410,696	(182,996)	(8,693)	(38,377)	882,600	262,437	17,020,778
TOTAL NET ASSETS, June 30, 2005	892,577	120,832,416	31,501,530	1,539,660	7,581,964	521,464	(8,279)	-	-	162,861,332
TOTAL NET ASSETS, June 30, 2006	$ 1,612,135	132,704,392	34,605,107	1,950,356	7,398,968	512,771	(46,656)	882,600	262,437	179,882,110

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	Total
CASH FLOWS FROM OPERATING ACTIVITIES:										
Cash paid for employee services	$ (1,069,463)	(700,489)	(152,735)	(188,595)	-	-	-	-	-	(2,111,282)
Cash paid to vendors for services	(591,003)	(380,813)	(258,652)	(291,629)	(382,285)	(9,022)	-	(879)	(136)	(1,914,419)
Bond issuance costs	-	(552,302)	-	-	-	-	-	-	-	(552,302)
Interest expense paid	-	(22,068,279)	-		-	-	-	-	(24,106)	(22,092,385)
Grants awarded	-	(533,548)	4,145,259	-	-	-	-	-	-	3,611,711
Tax revenue	-	17,290,673	-	-	-	-	-	-	-	17,290,673
Interest income received	63,420	23,161,432	1,080,693	51,004	200,478	15,996	2,557	8,505	30,549	24,614,634
Administrative fees received	1,076,269	-	40,948	1,750,000	5,194	1,152	-	-	-	2,873,563
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(520,777)	16,216,674	4,855,513	1,320,780	(176,613)	8,126	2,557	7,626	6,307	21,720,193
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:										
Operating transfers, net	746,524	(1,012,705)	(18,064)	(875,000)		(16,339)	-	875,000	279,089	(21,495)
Cash paid to subrecipients for services		(696,524)	(2,860,031)	-		-	-	-	-	(3,556,555)
Cash provided (used) by funds held for others	-	8,868,060	174,246	-	(3,553)	-	250,000	-	-	9,288,753
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	746,524	7,158,831	(2,703,849)	(875,000)	(3,553)	(16,339)	250,000	875,000	279,089	5,710,703
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:										
Securities	-	1,056,286	-	-	-	-	-	-	-	1,056,286
Escrow		(12,621,900)	-	-	-		-	-	-	(12,621,900)
Loans funded		(153,628,075)	(1,550,114)	-	-	-	-		-	(155,178,189)
Loan payments received		37,546,043	1,033,066	-	811,822	29,495	-	-	-	39,420,426
Bonds issued		168,400,000	-	-	-	-	-	-	2,500,000	170,900,000
Payment of bonds	-	(27,569,347)	-	-	-	-	-	-	-	(27,569,347)
Debt service	-	(2,866,969)	(1,260,753)	-	(4,482)	-	-	-	-	(4,132,204)
Capital asset purchases	(103,035)	(96,926)	(28,536)	(62,844)	-	-	-	-	-	(291,341)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(103,035)	10,219,112	(1,806,337)	(62,844)	807,340	29,495	-	-	2,500,000	11,583,731
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	122,712	33,594,617	345,327	382,936	627,174	21,282	252,557	882,626	2,785,396	39,014,627
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2005	106,734	166,054,507	15,630,755	1,467,353	2,266,477	68,521	-	-	-	185,594,347
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2006	$ 229,446	199,649,124	15,976,082	1,850,289	2,893,651	89,803	252,557	882,626	2,785,396	224,608,974
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:	719,558	11,871,976	3,103,577	410,696	(182,996)	(8,693)	(38,377)	882,600	262,437	17,020,778
Adjustments to operating income:										
Depreciation and amortization	25,279	18,491	12,355	15,052	-	-	-	-	-	71,177
Net transfers	(746,524)	1,709,229	2,878,095	875,000	-	16,339	-	(875,000)	(279,089)	3,578,050
(Increase) decrease in prepaids and receivables	(572,410)	(1,365,972)	(1,225,875)	-	5,194	480	-	-	-	(3,158,583)
Increase in payables and other accrued liabilities	53,320	3,982,950	87,361	20,032	1,189	-	40,934	26	22,959	4,208,771
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (520,777)	16,216,674	4,855,513	1,320,780	(176,613)	8,126	2,557	7,626	6,307	21,720,193

See Notes to Financial Statements.

AS OF JUNE 30, 2006

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	364,453,433
Expense funds		2,463,987
Bond reserve funds		41,318,641
TOTAL ASSETS	$	408,236,061
LIABILITIES:		
Accounts payable	$	1,388,387
Debt service payable		42,887,424
Funds held for the New Mexico Department of Transportation		363,960,250
TOTAL LIABILITIES	$	408,236,061

See Notes to Financial Statements.

NATURE OF ORGANIZATION

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

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

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

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

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

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

NATURE OF ORGANIZATION - continued

The financial reporting entity as defined by GASB No. 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The Authority has implemented the provisions of GASB No. 34. As a part of this statement, there is a reporting requirement regarding the local government's infrastructure (roads, bridges, etc.) The Authority does not own any infrastructure assets and, therefore, is unaffected by this requirement.

♦ *Basic Financial Statements*

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Government-wide and Fund Financial Statements*

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from ***business-type activities***, which rely to a significant extent on fees and charges for support. Likewise, the ***primary government*** is reported separately from certain legally separate ***component units*** for which the primary government is financially accountable.

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipt taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized when the underlying transaction has occurred. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. ***Program revenues*** include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as ***general revenues***.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Government-wide and Fund Financial Statements - continued*

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

The Government-wide financial statements are prepared using the economic resources measurement focus and the accrued basis of accounting. The fund financial statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

♦ *Basis of Presentation - Fund Accounting*

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

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The following fund types and account groups are used by the Authority:

> ***Governmental Fund Types*** - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

- Metro Court Financing Fund
- State Building Program Cigarette Tax Fund
- State Office Building Financing Fund
- UNM Health Sciences Fund
- Water Project Fund
- Water and Wastewater Project Grant Fund

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

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

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

Special Revenue Fund - Water and Wastewater Project Grant Fund. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

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

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

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

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

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

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle. There was an additional bond issuance in September 2002 (2002A).

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued***

♦ ***Basis of Presentation - Fund Accounting - continued***

Debt Service Funds - continued

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Basis of Presentation - Fund Accounting - continued

Debt Service Funds - continued

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

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

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

Debt Service Fund - UNM Health Sciences. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

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

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

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

Enterprise Fund - Public Projects Revolving Fund. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund - Primary Care Capital Fund - continued. for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt on the 2004A Bonds for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

Enterprise Fund - Cigarette Tax Revenue Bond – Behavioral Health Capital Fund (BHCF). The BHCF was set up to provide funding for capital projects to non-profit providers to increase health care services to sick and indigent patients. The 2004 Legislature created this fund to provide low cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. The Authority was authorized to issue up to $2,500,000 in bonds, secured by a portion of the net cigarette tax receipts collected by the State and distributed to the Authority. A private placement of $2,500,000 in bonds was issued during fiscal year 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Basis of Presentation - Fund Accounting - continued*

Enterprise Funds - continued

Enterprise Fund – Local Transportation Infrastructure Fund (Local Road Fund). This fund was created to provide local government not eligible for Federal funding, whose needs have not been met by the existing Local Government Road Fund, with grants and low cost financial assistance for transportation projects. The program is jointly administered by the Authority and the NMDOT. The NMDOT determines feasibility and priority of recommended projects and the Authority makes loans and grants to the recommended projects. Grants are capped at 25 percent of the project cost.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (see Note 12).

♦ *Measurement Focus and Basis of Accounting*

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized when the underlying transaction has occurred. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus and Basis of Accounting - continued*

finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period). For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2006, was $6,264,743.

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

When both restricted and unrestricted net assets are available for expenses, unrestricted funds are applied first.

♦ *Cash and Cash Equivalents*

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

For pooled funds on deposit with the New Mexico State Treasurer, interest is credited to the various programs based on the program's average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Cash and Cash Equivalents - continued*

level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

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

♦ *Securities*

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

♦ *Loans*

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

♦ *Allowance for Loan Losses*

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. The Authority has not experienced any losses on its loan portfolio.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Restricted Assets*

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

♦ *Budgets and Budgetary Accounting*

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding, and therefore are not presented in the financial statements. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

♦ *Capital Assets*

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $500 that significantly extend the useful life of an asset are capitalized. The Authority is adopting the New Mexico State Capitalization threshold of $5,000 in the next fiscal year. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

♦ *Income Taxes*

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Compensated Absences*

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

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

♦ *Cash Flows*

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

♦ *Bond Discounts, Premiums and Issuance Costs*

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

♦ *Fund Equity*

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

♦ *Net Assets*

The government-wide and business type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

> Investment in capital 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.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

- ***Net Assets - continued***

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

Unrestricted assets represent liquid assets.

- ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- ***Interfund and Interagency Transactions***

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

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE*

Funds held for others and short-term investments are held at the trustees in the names of the applicable government entity and the Authority. The repurchase agreements are overnight only. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	55,988,450	55,809,536
The Primary Care Capital Fund held at the State Treasurer's Office		2,845,585	2,845,585

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

		Book Balance	Bank Balance
Government-wide statement of net assets - continued:			
State Treasurer's office cash held at Bank of Albuquerque in money market accounts	$	97,570,334	99,683,333
Bank of Albuquerque trust accounts		119,065,618	119,065,618
Reserve on Bond Payable held in Bank of America		264,356	264,356
Wells Fargo operating accounts		229,447	248,189
	$	275,963,790	277,916,617
Agency Fund:			
Money market accounts invested in Bank of Albuquerque	$	408,236,061	408,236,061
	$	408,236,061	408,236,061

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

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

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its collateral securities that are in the possession of an outside party. The Authority's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in the Authority's name.

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES*

Loan receivable balances consist of the following at June 30, 2006:

Enterprise funds:	
Public Projects Revolving Loan Fund,	
net of allowance of $482,420	$ 551,812,951
Primary Care Capital Fund	4,541,415
Drinking Water State Revolving Loan Fund	17,329,581
Behavioral Health Capital Fund	431,370
	574,115,317
Governmental funds:	
C.O.P.S.	669,000
	$ 574,784,317

♦ ***Public Projects Revolving Loan Fund***

The Public Projects Revolving Loan Fund loans receivable balance at June 30, 2006 is $551,812,951, net of allowance of $482,420, 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:

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ *Public Projects Revolving Loan Fund – continued*

		Principal	Interest	Total
July 1, 2006 to June 30, 2007	$	38,319,850	19,875,333	58,195,184
July 1, 2007 to maturity		513,975,521	187,098,108	701,073,629
	$	552,295,371	206,973,441	759,268,812

♦ *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, 2006 to June 30, 2007	$	430,580	136,954	567,535
July 1, 2007 to maturity		4,110,835	644,738	4,755,572
	$	4,541,415	781,692	5,323,107

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

♦ *Drinking Water State Revolving Loan Fund*

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

		Principal	Interest	Total
July 1, 2006 to June 30, 2007	$	1,014,361	331,537	1,345,898
July 1, 2007 to maturity		16,315,220	2,269,996	18,585,216
	$	17,329,581	2,601,533	19,931,115

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

♦ *Behavioral Health Capital Fund*

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ *Behavioral Health Capital Fund - continued*

		Principal	Interest	Total
July 1, 2006 to June 30, 2007	$	30,382	11,863	42,245
July 1, 2007 to maturity		400,988	69,425	470,413
	$	431,370	81,288	512,658

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

♦ *C.O.P.S.*

The C.O.P.S. loans vary, with interest rates ranging from 4.75% to 6.618%. 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, 2006 to June 30, 2007	$	162,000	39,201	201,201
July 1, 2007 to maturity		507,000	122,858	629,858
	$	669,000	162,059	831,059

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

4. *SECURITIES*

At June 30, 2006, securities for the Public Project Revolving Fund (PPRF) consisted of $11,202,538 of Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B and 2003B); $7,188 of Jemez Springs Bonds; and $495,651 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resources Bonds have interest rates ranging from 3% to 5.6%, with final maturity on May 1, 2018. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45%, with a final maturity on May 1, 2008. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19%, with final maturity on May 1, 2008. The securities are carried at cost, which approximates market value.

4. *SECURITIES - continued*

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

		Principal	Interest	Total	Weighted Average Maturity
July 1, 2006 to June 30, 2007	$	1,093,277	548,013	1,641,290	1.00
July 1, 2007 to maturity		10,612,100	2,887,887	13,499,987	9.51
	$	11,705,377	3,435,900	15,141,277	

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in The Authority's name. The Authority's investments in securities listed above are not collateralized.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS*

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Interfund receivables and payables as of June 30, 2006 consist of the following:

			Due To:		
				Enterprise Funds	
			PPRF 200s	Operating Fund 101	Total
Due From:					
Governmental Funds:					
Metro Court	304	$	1,275,483	-	1,275,483
Water and Wastewater Grant	307		-	10,001	10,001
Water Project Fund	309		-	18,157	18,157
Emergency Drought Relief	312		-	884	884
Water Planning Grant	313		-	5,453	5,453
Economic Development	314		-	721,428	721,428
Total Governmental Funds			1,275,483	755,923	2,031,406
Enteprise Funds:					
GRIP Fund	104	$	-	41,118	41,118
Drinking Water	500		-	23,472	23,472
Child Care	319		-	48,756	48,756
Behavioral Health	311		-	289	289
Local Road Fund	504		-	26	26
PPRF	200s		-	101,415	101,415
Total Enterprise Funds			-	215,076	215,076
		$	1,275,483	970,999	2,246,482

The $1,275,483 was for court facility fee revenues due to the PPRF Fund to pay debt service.

The $970,999 was for reimbursements due to the Operating Fund for expenses paid on behalf of the other funds.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Transfers between funds for the year ended June 30, 2006 are as follows:

		Transfers Out: UNM Health Sciences 103/105	Metro Court 304	State Building 100	Water and Wastewater Project 307	Water Project Fund 309	Other	Total
Transfers In:								
Governmental Funds:								
UNM Health Sciences	103/105 $	-	-	2,449,277	-	-	-	2,449,277
Metro Court	304	1,364,277	-	987,079	1,945	-	-	2,353,301
State Building	100	-	3,175,091	1,244,010	-	-	-	4,419,101
Emergency Drought Relief	312	-	-	-	-	16,558	-	16,558
Water Planning Grant	313	-	-	-	-	-	-	-
Equipment Loan Fund	400s	-	-	-	-	-	-	-
Total Governmental Funds		1,364,277	3,175,091	4,680,366	1,945	16,558	-	9,238,237

		Operating Fund 101	CRIP Admin 104	Drinking Water 500	Behavioral Health 311	Cigarette Tax Revenue 321	PPRF 200s	Total
Enterprise Funds:								
Operating Fund	101	-	-	-	-	-	5,158,684	5,158,684
Drinking Water	500	-	-	(561,824)	-	-	-	(561,824)
Behavioral Health	311	-	-	-	-	7,767	-	7,767
Local Road Fund	504	-	875,000	-	-	-	-	875,000
Cigarette Tax Revenue	321	-	-	-	-	-	286,856	286,856
PPRF	200s	4,412,160	-	-	24,107	-	480,010,608	484,446,875
Total Enterprise Funds:		4,412,160	875,000	(561,824)	24,107	7,767	485,456,148	490,213,358
Total Governmental and Enterprise Funds	$	5,776,437	4,050,091	4,118,542	26,052	24,325	485,456,148	499,451,595

Transfers in and out of the governmental funds are legilsatively appropriated revenues to pay debt service.

Enterprise fund transfers in and out are primarily movement of loan proceeds out to the borrowers to pay for program and construction costs.

There was $21,495 transferred from the Enterprise Funds to the Governmental funds for fiscal year ending 2006.

The following Enterprise Fund owed the following amount to other state agencies at June 30, 2006.

The Drinking Water Revolving Loan Fund owed $677,326 to the Environment Department for technical set-asides.

6. *TRANSFERS TO OTHER STATE AGENCIES*

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2006:

The UNM Health Sciences 2004A transferred $2,897,518 for revenue rebate to UNM from cigarette tax collections.

The Workers' Compensation Series 1996 transferred $784,264 for rebate revenue to Workers' Compensation.

The State Office Building Financing Fund transferred $9,797,728 in program fund requests to project draw requests, debt service payments and final debt service payment for NMSU building.

The following special revenue fund made the following transfer to other state agencies during the year ended June 30, 2006:

The State Building Program Cigarette Tax Fund transferred $94,150 for the UNM Law Library debt service.

The following enterprise funds made the following transfers to other state agencies during the year ended June 30, 2006:

The PPRF Series 2005 C & D Metro Court Refunding transferred $696,524 for project draw requests and revenue rebate to Metro Court.

The New Mexico Drinking Water Revolving Loan Fund transferred $2,860,031 to the New Mexico Environment Department for billings.

7. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

Business-type Activities		Balance June 30, 2005	Additions	Adjustments/ Deletions	Balance June 30, 2006
Depreciable assets:					
Furniture and fixtures at historical cost	$	259,439	59,360	(161,273)	157,526
Computer hardware and software		-	199,702	159,622	359,324
Machinery and equipment		-	24,656	907	25,563
Leasehold improvements		2,934	7,623	-	10,557
		262,373	291,341	(744)	552,970
Accumulated depreciation:					
Furniture and fixtures		(120,438)	(14,502)	744	(134,196)
Computer hardware and software		-	(48,788)	-	(48,788)
Machinery and equipment		-	(6,024)	-	(6,024)
Leasehold improvements		(1,217)	(1,863)	-	(3,080)
		(121,655)	(71,177)	744	(192,088)
Net total	$	140,718	220,164	-	360,882

Depreciation expense was $25,379 in the Operating Fund, $18,391 in the Public Project Revolving Fund, $12,355 in the Drinking Water Revolving Loan Fund, and $15,052 in the GRIP Administrative Fund for the year ended June 30, 2006.

7. *CAPITAL ASSETS - continued*

Governmental Activities		Balance June 30, 2005	Additions	Adjustments/ Deletions	Balance June 30, 2006
Depreciable assets:					
Furniture and fixtures at historical cost	$	145,129	57,033	(44,492)	157,670
Computer hardware and software		-	72,871	44,004	116,875
Machinery and equipment		-	24,392	488	24,880
Leasehold improvements		2,747	7,723	-	10,470
		147,876	162,019	-	309,895
Accumulated depreciation:					
Furniture and fixtures		(28,528)	(17,100)	-	(45,628)
Computer hardware and software		-	(21,849)	-	(21,849)
Machinery and equipment		-	(7,313)	-	(7,313)
Leasehold improvements		(540)	2,316	-	(2,856)
Accumulated depreciation		(29,068)	(48,578)	-	(77,646)
Net total	$	118,808	113,441	-	232,249

Depreciation expense was $12,267 in the Water and Wastewater Project Grant Fund, $12,398 in the Water Project Fund, $4,954 in the Emergency Drought Water Program Fund, $9,299 in the Water and Wastewater Planning Grant Fund and $9,660 in the Economic Development Fund for the year ended June 30, 2006.

8. *BONDS PAYABLE*

Bonds outstanding as of June 30, 2006, for the Authority's enterprise funds consist of the following:

Public Project Revolving Funds (PPRF)

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

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

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

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

8. BONDS PAYABLE - continued

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

PPRF Series 2005F. On December 7, 2005, the Authority issued $21,950,000 of Subordinate Lien Public Project Revolving Fund Series 2005 F Revenue Bonds. The 2005 F Series Bonds were issued to 1) directly fund, or to reimburse the Public Projects Revolving Fund for, loans made by the NMFA to certain governmental entities for the purpose of financing public projects, 2) purchase a Reserve Instrument, and 3) pay the cost of issuance of the Series 2005 F Bonds.

8. BONDS PAYABLE - continued

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2006A. On March 28, 2006, the Authority issued $49,545,000 of Subordinate Lien Public Project Revolving Fund Series 2006 A Revenue Bonds. The 2006 A Series Bonds were issued to 1) originating loans or reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities that will be or were used to finance certain projects for such governmental units, 2) purchase a reserve surety bond for deposit to the debt service reserve account established for the Series 2006 A Bonds, and 3) pay costs incurred in connection with the issuance of the Series 2006 A Bonds.

PPRF Series 2006B. On June 27, 2006, the Authority issued $38,260,000 of Senior Lien Public Project Revolving Fund Series 2006 B Revenue Bonds. The 2006 B Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units and, 2) pay costs incurred in connection with the issuance of the Series 2006 B Bonds.

PPRF Series 2006D. On September 6, 2006, the Authority issued $54,600,000 of Senior Lien Public Project Revolving Fund Series 2006 D Revenue Bonds. The 2006 D Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, 2) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue Bonds, Series 2006 A (PERA Building Acquisition) (the "2006A Bonds") to finance the acquisition and improvement of a public building for use by the State with proceeds of the 2006 A Bonds, 3) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue bonds Series 2006 B (Refunding Project) (the "2006 B Bonds") to refund the outstanding NMFA State Office Building Bonds Series 2002 A with proceeds of the Series 2006 B Bonds, and 4) pay costs incurred in connection with the issuance of the Series 2006 D Bonds.

8. *BONDS PAYABLE - continued*

Bonds outstanding as of June 30, 2006, to be paid out of the Authority's debt service funds consist of the following:

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

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

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

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

8. *BONDS PAYABLE - continued*

Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

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

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 19965B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

8. BONDS PAYABLE - continued

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

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

8. *BONDS PAYABLE - continued*

Bonds payable and related premium/discount balances consist of the following at June 30, 2006:

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1997A	$	5,455,000	4.25 - 5.00	6/1/2007
PPRF 1999A, B, C and D		12,935,000	3.30 - 6.30	6/1/2018
PPRF 2000A		1,650,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		11,055,000	4.35 - 5.60	6/1/2030
PPRF 2002A		27,975,000	2.00 - 5.00	6/1/2026
PPRF 2003A		32,788,000	2.00 - 4.75	6/1/2032
PPRF 2003B		23,545,000	2.00 - 5.00	6/1/2021
PPRF 2004A		37,430,000	1.125 - 5.00	6/1/2031
PPRF 2004B		44,680,000	3.00 - 5.125	6/1/2033
PPRF 2004C		157,785,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D		54,750,000	3.05 - 5.00	Various
PPRF 2005A		18,095,000	3.00 – 4.25	6/1/2025
PPRF 2005B		13,320,000	3.00 – 4.25	6/1/2020
PPRF 2005E		23,630,000	4.00 - 5.00	6/15/2025
PPRF 2005F		21,950,000	4.00 - 5.00	6/15/2022
PPRF 2006A		49,545,000	4.00 - 5.00	6/15/2035
PPRF 2006B		38,260,000	4.00 - 5.00	6/1/2036
CIG TAX 2006 – Behavioral Health		2,500,000	5.51	5/1/2026
		577,348,000		
Bond premium and discount, net on enterprise funds		27,353,958		
Total	$	604,701,958		

8. *BONDS PAYABLE – continued*

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service Funds:				
UNM Health Sciences	$	29,670,000	2.00 - 5.00	6/30/2019
UNM Health Sciences 2004B		8,915,000	2.10 - 5.50	6/30/2019
Workers' Compensation Financing Fund		2,950,000	5.00 - 5.60	3/1/2017
Metro Court		45,975,000	5.50 - 5.80	2025
State Capitol Improvement Financing Fund		6,490,000	7.00	6/1/2021
State Building Purchase Fund		28,850,000	4.00 - 5.00	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B		225,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A		67,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B		377,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond		-	3.95 - 5.25	6/1/2006
		123,519,000		
Bond premium and discount, net on Debt Service Funds		2,169,977		
Total	$	125,688,977		

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2007	$	39,787,000	32,897,047	72,684,047
2008		33,671,000	31,046,604	64,717,604
2009		44,125,000	29,760,223	73,885,223
2010		37,905,000	28,286,524	66,191,524
2011		39,987,000	26,605,564	66,592,564
2012 - 2016		213,781,000	103,313,177	317,094,177
2017 - 2021		157,293,000	56,675,428	213,968,428
2022 - 2026		101,850,000	20,549,071	122,399,071
2027 - 2031		17,576,000	6,297,652	23,873,652
2032 - 2033		14,892,000	2,009,855	16,901,855
Total	$	700,867,000	337,441,145	1,038,308,145

8. *BONDS PAYABLE - continued*

The bonds payable activity for the year is as follows:

		Balance, July 1, 2005	Additions	Deletions	Balance, June 30, 2006
Enterprise Funds	$	438,020,000	168,400,000	(29,072,000)	577,348,000
Debt Service Funds		132,765,000	-	(9,246,000)	123,519,000
Total	$	570,785,000	168,400,000	(38,318,000)	700,867,000

The amount of bonds payable due within one year is $39,787,000.

The following bonds were issued by the Authority in an agency capacity and are not included in the Authority's financial statements (see Note 12):

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation, Series 2004A, Revenue Bonds. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation, Series 2004B, Refunding Revenue Bonds. The Series 2004B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation, Series 2004C, Refunding Revenue Bonds. The Series 2004C Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

9. *OPERATING LEASE COMMITMENT*

The Authority is committed under various lease agreements for office space and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2006 amounted to approximately $275,765.

Future minimum lease payments for these leases are as follows:

Years ending June 30:		
2007	$	290,140
2008		299,121
2009		307,598
2010		319,902
2011 and thereafter		-
	$	1,216,761

10. *RETIREMENT PLAN*

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $263,313, $204,975 and $153,937 for the years ended June 30, 2006, 2005 and 2004, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2006, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

10. *RETIREMENT PLAN - continued*

Statement of Fiduciary Net Assets

Assets:		
Cash	$	20,331
Self-directed accounts (cash and investments)		1,110,611
Guaranteed Account		5,295
Participant loan receivable		25,492
Total assets	$	1,161,729
Net assets:		
Pension plan participants' benefits	$	1,161,729

Statement of Changes in Net Assets

Additions:		
Investment earnings	$	83,228
Employer contributions		263,313
Employee contributions		78,054
Total additions		424,595
Deductions:		
Distributions to participants		143,164
Investment expenses		9,663
Total deductions		152,827
Change in net assets		271,768
Net assets - beginning		889,961
Net assets - ending	$	1,161,729

10. RETIREMENT PLAN - continued

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code for its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2006 were $24,450.

11. COMPENSATED ABSENCES

During the year ended June 30, 2006, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2005	Additions	Deletions	Balance, June 30, 2006
$	132,278	72,728	(42,729)	162,277

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

12. AGENCY TRANSACTIONS

Bond Issues

The Authority, on behalf of the New Mexico Department of Transportation (NMDOT), issued $700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A in May 2004. The gross proceeds to the Authority were $738,787,815, including $43,556,815 of an original issue premium. The cost of issuance including underwriter fees was $6,368,367. The Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and the NMDOT has determined to be necessary or desirable.

12. *AGENCY TRANSACTIONS - continued*

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 3.8% to 5.25% per annum is payable semi-annually on June 15 and December 15 through the year 2024.

The Authority, on behalf of the NMDOT, issued $237,950,000 and $200,000,000 (Authority) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C in May 2004. The gross proceeds to the Authority for both issuances were $451,069,205, including $16,347,187 of an original issue premium. The cost of issuance including underwriter fees was $4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The $237,950,000 Series 2004B Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the Authority and the Commission.

The NMDOT is responsible for the Authority issuance costs. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 2% to 5% per annum is payable semi-annually on June 15 and December 15 through the year 2014.

The Series 2004C Bonds are special, limited obligations of the NMDOT payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C Bonds or which may hereafter be issued through the Authority. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

The Authority is responsible for its issuance costs. Principal of the Bonds is payable as follows on June 15 with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is fixed at 3.393% based on a swap agreement in place at June 30, 2004.

12. AGENCY TRANSACTIONS - continued

For the year ended June 30, 2006, the Authority recorded $1,750,000 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2006, the Authority had $408,236,061 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

Refunding

The Authority, on behalf of the NMDOT, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. $363,490,000 of the bonds outstanding was considered defeased as of June 30, 2006.

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

Objective of the Swaps. In April of 2004, the New Mexico Finance Authority (the "Authority") entered into two (2) forward starting swaps with two (2) counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a $1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between $175 million and $200 million in cash which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072% based on an amortizing notional schedule

12. *AGENCY TRANSACTIONS - continued*

State Transportation Revenue Bonds, Series 2006 - continued

with a combined $220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. The option premium is equal to 0.34% per annum, resulting in a net fixed rate of 4.732%. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the swaps had a negative fair value of $6,818,902 without the option. The options had a negative value of $12,823,336 in isolation of the swaps, thus the swaps including the options had a total negative value of $19,642,238. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk. As of June 30, 2006 the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

Termination Risk. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. The swap also includes an additional termination event related to non-issuance of the associated bonds. That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial cash reserves which will mitigate this risk by generating variable rate income. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

12. AGENCY TRANSACTIONS - continued

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3

Objective of the Swap. In April of 2004, the Authority entered into three (3) swaps with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of $11,524,206.49 or 3.02% of the refunded bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate bonds at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swap was to effectively change the Authority's interest rate on the bonds to a fixed rate.

Terms. The swaps were executed with Goldman Sachs Mitsui Marine Derivative (Goldman), Lehman Brothers Derivative Products Inc. (Lehman) and Royal Bank of Canada (RBC) at respective initial amortizing notional amounts of $50,000,000, $50,000,000 and $100,000,000. The counterparties were, at the trade date, rated AA+/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody',s respectively. All three swaps commenced on May 20, 2004 and will mature on June 15, 2024. Under the swaps, the Authority pays a fixed rate of 3.934% and received a variable rate computed as the BMA index until June 15, 2006, on which date the variable interest rate received switched to 68% of the one month London Interbank Offered Rate ("LIBOR") until maturity. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the Lehman swap and Goldman swap each had a fair value of $62,922, while the RBC swap had a fair value of $125,844. The total fair value on all the swaps was $251,688. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk. As of June 30, 2006 the Authority is exposed to credit risk in an amount equal to the positive fair value for each of the swaps. To mitigate credit risk, the counterparties are required to post collateral based upon the agreed upon collateral threshold levels per the Credit Support Annex (CSA) which are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

12. *AGENCY TRANSACTIONS - continued*

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

Basis Risk. As of June 15, 2006, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The Authority is also exposed to tax risk, a form of basis risk, where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The effect of the difference in basis is indicated by the difference between the intended synthetic rate (3.934%) and the synthetic rate as of June 30, 2006 (4.197%). The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2006, the rate on the bonds was 3.89%, whereas 68% of one month LIBOR was 3.627%.

Termination Risk. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt: As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending	Variable Rate Bonds		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Total
2007	$ -	7,780,000	614,000	8,394,000
2008	-	7,780,000	614,000	8,394,000
2009	-	7,780,000	614,000	8,394,000
2010	-	7,780,000	614,000	8,394,000
2011	-	7,780,000	614,000	8,394,000
2012 - 2016	-	38,900,000	3,070,000	41,970,000
2017 - 2021	-	38,900,000	3,070,000	41,970,000
2022 - 2024	200,000,000	20,511,645	1,618,785	22,130,431
	$ 200,000,000	137,211,645	10,828,785	148,040,431

13. SUBSEQUENT EVENTS

After June 30, 2006, the Authority issued the following PPRF Direct Loans, Water Project Fund/Water Trust Board Grants, Water Wastewater Grants, and Senior Lien PPRF Revenue Bonds:

	Closing Date		Amount
PPRF Cash Loans:			
City of Catron – Cruz, Apac, Aragon VFD	7/14/2006	$	277,778
Edgewood SWCD	7/14/2006		427,511
City of Roswell – Police Department	7/21/2006		583,000
Union County	7/21/2006		1,836,505
City of Las Cruces	7/28/2006		268,552
Gallup - McKinley County School District	7/28/2006		13,580,026
Socorro County – Hop Canyon VFD	7/28/2006		266,651
Belen Cons. School District No. 2	8/4/2006		1,000,000
City of Alamogordo	8/11/2006		730,453
Jicarilla Apache Tribal Utility Authority	8/11/2006		21,650,229
City of Bayard	8/18/2006		175,000
Quay County – Jordan FD	8/18/2006		100,000
Dept. of Health – Behavioral Health Institute	8/25/2006		1,000,000
Dept. of Health – Rehabilitation Center	8/25/2006		1,000,000
Otero County – Oro Grande FD	8/25/2006		91,109
Otero County – Pinon VFD	8/25/2006		80,000
Zuni Public Schools – T-house Bonds	9/8/2006		2,702,601
Chaves County – East Grand VFD	9/22/2006		150,000
Farmington Municipal School District No. 5	9/29/2006		1,100,000
Jemez Public School District No. 31	9/29/2006		750,000
Lincoln County – Bonito VFD	9/29/2006		90,000
City of Bayard	10/6/2006		40,000
City of Rio Rancho	10/6/2006		717,868
City of Rio Rancho – Tax Exempt	10/6/2006		8,764,398
		$	57,381,681
Water Project Fund/Water Trust Board:			
Cloudcroft Village	8/4/2006	$	500,000
City of Las Vegas	8/11/2006		1,471,400
ENMRWA – City of Clovis (FA)	8/11/2006		1,000,000
Interstate Stream Comm.	8/11/2006		900,000
Pojoaque Pueblo	9/15/2006		1,000,000
		$	4,871,400

13. SUBSEQUENT EVENTS - continued

	Closing Date		Amount
Water Wastewater Grants:			
Las Vegas	8/25/2006	$	399,996
Las Vegas	8/25/2006		2,277,000
Mora MDWCA	9/29/2006		400,000
Los Ojos MDWCA	10/6/2006		154,350
		$	3,231,346
Senior Lien PPRF Revenue Bonds Series 2006D	9/5/2006	$	56,400,000
		$	56,400,000
PPRF Revenue Bonds Series 2005A	8/1/2005	$	19,015,000
		$	19,015,000
PPRF Revenue Bonds Series 2005B	8/1/2005	$	13,500,000
		$	13,500,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005C	4/5/2005	$	50,395,000
		$	50,395,000
Taxable Subordinate Lien PPRF Refunding Revenue Bonds Series 2005D	4/5/2005	$	8,660,000
		$	8,660,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005E	8/30/2005	$	23,630,000
		$	23,630,000

Energy Efficiency and Renewable Energy Bonding Fund. House Bill 32 created the Energy Efficiency and Renewable Energy Bonding Fund at the Authority. The Authority would issue bonds based on projected savings and from a $200,000 per month allocation from the General Fund to the Authority. The proceeds from the bonds would be used to pay for energy efficient improvements at state-owned buildings or public schools. The Authority is authorized to issue up to $20 million in bonds for this purpose.

14. *DEFICIT FUND / NET ASSETS*

There are deficit fund balances of $736,503 in the Economic Development Fund, $46,656 in the Child Care Revolving Loan Fund and $1,386,623 in the Metro Court Financing Fund. The operating fund will cover the deficits in these funds.

There is a deficit in net assets of $73,470,696 in the governmental activities in the Statement of Net Assets. The decline in governmental net assets is the result of the decline in certain grant funds.

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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 2007B Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the Series 2007B 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 Chairman, any Vice Chairman, Secretary, the Chief Executive Officer, 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, 2007.

“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, underwriters 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, underwriters 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 12 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;

(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 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 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; 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 successors 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., Standard & Poor's Ratings Services 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 Services.

"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 (a) rated in one of the three top rating categories by at least one of the Rating Agencies and (b) 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 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.

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 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 this 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);

(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.

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.

<u>Waivers of Events of Default</u>. 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.

<u>Defaults Relating to PPRF Secured Obligations</u>. 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 2007B 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.

The information presented in this Appendix C relates to certain economic and demographic information relating to the State. Such information is for informational purposes and is presented to provide readers a sense of the economic and demographic composition of the State. Such information is available from the sources listed in the tables and is believed to be reliable. However, the NMFA has not verified and does not guarantee the accuracy of any such information.

Generally

The State, admitted as the forty-seventh state on January 6, 1912, 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 percent sunshine year-round. Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Evenings are crisp and cool in all seasons because of low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains). The State is an experience in comfortable living with its clean air, blue skies and fair weather.

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General and Commissioner of Public Lands who are elected to four-year terms beginning the January 1 after their election. An elected Executive Branch Officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to approximately 20 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms, members of the House for 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 may be convened by the Governor, and under certain limited circumstances, extraordinary sessions may be convened by the Legislature. Legislators receive no salary, but do receive per diem and mileage allowances while in session or performing official State business.

The judicial branch is composed of a statewide system including 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 Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990's, the State was the 12th fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent.

Most of this population growth is occurring in or near the larger 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 comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is comprised of San Juan County. The fastest growing counties in the state are Sandoval, Doña Ana, Bernalillo, San Juan, Luna and Lincoln. The following table sets forth information on population growth in New Mexico and nationally over the past decade.

POPULATION
NEW MEXICO AND THE UNITED STATES
1997-2006

	Population		Annual Percentage Change	
Year	New Mexico	United States	New Mexico	United States
1997	1,774,839	272,646,925	1.3%	1.2%
1998	1,793,484	275,854,104	1.1	1.2
1999	1,808,082	279,040,168	0.8	1.2
2000	1,821,656	282,216,952	0.7	1.1
2001	1,832,783	285,226,284	0.6	1.0
2002	1,855,353	288,125,973	1.2	1.0
2003	1,877,598	290,796,023	1.2	0.9
2004	1,900,620	293,638,158	1.2	1.0
2005	1,925,985	296,507,061	1.3	1.0
2006	1,954,599	299,398,484	1.5	1.0

Source: Population Division, U.S. Census Bureau, December 2006.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, 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 sets forth information on employment by industry over the period 1980-2005.

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TOTAL FULL-TIME AND PART-TIME EMPLOYMENT BY INDUSTRY

	1980	1990	2000	2001[1]	2005[1]	Growth 1980-1990	Growth 1990-2000	Growth 2001-2005[1]
Total employment	598,199	767,139	972,954	977,815	1,064,351	28.20%	26.80%	8.80%
Wage and salary employment	513,306	635,725	789,690	801,610	856,406	23.80	24.20	6.80
Proprietors employment	84,893	131,414	183,264	176,205	207,945	54.50	39.70	18.00
Farm proprietors employment	13,400	13,600	14,985	17,470	17,157	1.50	10.20	(1.80)
Nonfarm proprietors employment	71,493	117,814	168,279	158,735	190,788	64.80	42.80	20.20
By Industry								
Farm employment	22,191	19,766	21,760	24,091	24,685	(10.90)	10.10	2.50
Nonfarm employment	576,008	747,373	951,194	953,724	1,039,666	29.80	27.30	9.00
Private employment	428,156	568,085	748,804	748,250	820,099	32.70	31.80	9.60
Agricultural services, forestry, fishing and other	4,358	8,414	13,548	7,019	7,224	93.10	61.00	2.90
Mining	31,152	20,489	19,323	19,469	21,024	(34.20)	(5.70)	7.90
Oil and gas extraction	15,116	14,068	14,425	6,447	6,751	(6.90)	2.50	4.70
Mining and support activities for mining[2]	16,036	6,421	4,898	13,022	14,273	149.70	23.70	9.60
Construction	38,873	40,606	59,895	63,144	73,164	4.50	47.50	15.90
General building contractors	11,933	11,858	16,710	18,050	19,396	(0.60)	40.90	7.50
Heavy construction contractors	8,287	6,729	8,720	10,365	10,171	(18.80)	29.40	(1.90)
Special trade contractors	18,653	22,019	34,465	34,729	43,597	18.00	56.50	25.50
Manufacturing[3]	35,963	47,732	48,788	49,913	46,003	32.70	2.20	(7.80)
Durable goods	21,583	32,500	33,275	32,671	29,113	50.60	2.40	(10.90)
Nondurable goods[4]	14,380	15,232	15,513	17,242	16,890	5.90	1.80	(2.00)
Transportation and public utilities[5]	30,732	34,130	43,350	39,423	37,458	11.10	27.00	(5.00)
Wholesale trade	22,733	27,896	33,751	27,970	28,566	22.60	21.10	2.10
Retail trade[6]	98,075	134,482	172,516	175,525	183,919	37.10	28.30	4.80
Finance, insurance, and real estate[7]	37,945	46,955	62,905	60,113	69,993	23.70	34.00	16.40
Services[8]	128,325	207,381	294,728	308,674	338,935	61.60	42.10	9.80
Government and government enterprises	147,852	179,288	202,390	205,474	219,567	21.30	63.10	6.90
Federal, civilian	29,963	31,621	30,205	28,785	30,099	5.50	(4.50)	4.60
Military	21,794	22,552	17,167	17,106	16,258	3.50	(23.90)	(5.00)
State and local	96,095	125,115	155,018	159,583	173,210	30.20	23.90	8.50
State governmental	42,560	55,722	64,654	65,503	69,786	30.90	16.00	6.50
Local government	53,535	69,393	90,364	94,080	103,424	29.60	30.20	9.90

(1) Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2005 employment by industry data is not comparable with employment by industry data for the years 2000, 1990 and 1980. NAICS Industry groups and subgroups in the 2001 and 2005 data have been combined or extracted to approximate the SIC Industry groups listed for the years before 2001.

(2) The SIC subgroups, "Metal Mining," "Coal Mining" and "Nonmetallic Minerals, except fuels" were combined to approximate the NAICS category "Mining and Support Activities for Mining."

(3) The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

(4) The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing – Nondurable Goods" category have been combined to approximate the SIC "Manufacturing – Nondurable Goods" subcategory.

(5) The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS "Information" subcategories of "Broadcasting, except Internet" and "Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

(6) The NAICS "Accommodation and Food Services" subcategory of "Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

(7) The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

(8) The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, except Public Administration," and the subcategories, "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," "Information – Other Information Services" have been combined to approximate the SIC category "Services."

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

The following tables set forth selected additional economic and demographic data with respect to the State.

EMPLOYMENT AND LABOR FORCE
NEW MEXICO AND THE UNITED STATES
1997-2006

	Civilian Labor Force		Employed		Unemployment Rate		
Year	New Mexico[1]	United States[1]	New Mexico[1]	United States[1]	New Mexico	United States	N.M. as %of U.S. Rate
1997	823	136,297	769	129,558	6.60%	5.00%	133%
1998	836	137,673	784	131,463	6.20	4.50	139
1999	840	139,368	793	133,488	5.60	4.20	133
2000	851	142,583	809	136,891	5.00	4.00	127
2001	862	143,734	819	136,933	4.90	4.70	104
2002	875	144,863	828	136,485	5.50	5.80	95
2003	893	146,510	841	137,736	5.90	6.00	99
2004	912	149,401	860	139,252	5.70	5.50	103
2005	915	149,320	867	141,730	5.30	5.10	104
2006	935	151,428	896	144,427	4.20	4.60	91

(1) Figures rounded to nearest thousand.
(Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2007.)

PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
1997-2006

	Personal Income (000)		Annual Percentage Change	
Year	New Mexico	United States	New Mexico	United States
1997	$34,960,814	$6,907,332,000	4.80%	6.10%
1998	37,045,765	7,415,709,000	6.00	7.40
1999	38,045,599	7,796,137,000	2.70	5.10
2000	40,318,443	8,422,074,000	8.80	8.00
2001	44,138,165	8,716,992,000	9.50	3.50
2002	44,986,517	8,872,871,000	1.90	1.80
2003	46,650,275	9,150,320,000	3.70	3.10
2004	50,707,317	9,716,351,000	8.70	6.20
2005	53,714,363	10,220,942,000	5.90	5.20
2006[1]	57,998,275	10,860,916,880	8.00	6.30

(1) Preliminary estimate.
(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

PER CAPITA PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
1997-2006

	Per Capita Income			Annual Percentage Change	
Year	New Mexico	United States	N.M. as a % of U.S.	N.M.	U.S.
1997	$19,698	$25,334	78%	3.50%	4.80%
1998	20,656	26,883	77	4.90	6.10
1999	21,042	27,939	75	1.90	3.90
2000	22,133	29,843	74	5.20	6.80
2001	24,083	30,562	79	8.80	2.40
2002	24,247	30,795	79	0.70	0.80
2003	24,846	31,466	79	2.50	2.20
2004	26,679	33,090	81	7.40	5.20
2005	27,889	34,471	81	4.50	4.20
2006(1)	29,673	36,276	82	6.40	5.20

(1) Preliminary estimate.
(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

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WAGES AND SALARIES BY INDUSTRY SECTOR
1990, 2000, 2001 AND 2005

	New Mexico (Dollars in Thousands)				United States (Dollars in Millions)				Percent Change 2001-2005		Distribution of 2005 Wages and Salaries	
	2005[1]	2001[1]	2000	1990	2005[1]	2001[1]	2000	1990	N.M.	U.S.	N.M.	U.S.
Farm Total	252,352	176,072	179,521	95,849	21,404	17,920	16,781	11,767	43.30%	19.40%	0.90%	0.40%
Non-Farm												
Private												
Agricultural Services, Forestry, Fishing	84,932	72,008	143,971	62,663	17,836	15,968	30,886	15,164	17.90%	11.70%	0.30%	0.30
Mining	924,039	726,676	671,919	507,585	40,605	32,132	31,219	26,655	27.20	26.40	3.30	0.70
Construction	1,864,210	1,481,698	1,306,228	577,016	318,815	271,681	256,807	140,468	25.80	17.30	6.60	5.60
Manufacturing[2]	1,633,154	1,669,853	1,656,465	980,349	763,810	773,184	830,026	561,384	(2.20)	(1.20)	5.80	13.50
Transportation & Public Utilities[3]	1,294,999	1,239,195	1,351,378	884,830	361,463	295,851	313,333	179,390	4.50	22.20	4.60	6.40
Wholesale Trade	952,118	834,834	950,471	552,522	322,972	283,974	332,549	189,402	14.00	13.70	3.40	5.70
Retail Trade[4]	3,020,117	2,564,031	2,434,023	1,316,067	525,241	463,539	449,642	264,791	17.80	13.30	10.70	9.30
Finance, Insurance & Real Estate[5]	1,308,467	1,060,638	1,027,385	543,814	535,578	444,684	431,911	207,758	23.40	20.40	4.60	9.50
Services[6]	8,547,983	7,693,954	5,916,169	2,945,866	1,845,272	1,535,895	1,382,404	644,429	11.10	20.10	30.40	32.60
Total Private	19,635,730	16,283,154	15,458,009	8,370,712	4,674,424	4,116,908	4,058,777	2,229,441	20.60	13.50	69.70	82.60
Government												
Federal, Civilian	1,707,762	1,366,112	1,280,241	917,118	166,905	134,679	135,011	99,598	25.00	23.90	6.10	2.90
Military	678,213	495,168	477,480	440,596	80,074	54,970	50,520	46,332	37.00	45.70	2.40	1.40
State & Local	5,881,523	4,700,434	4,374,109	2,472,762	716,475	615,467	572,880	356,505	25.10	16.40	20.90	12.70
Total Government	8,267,498	6,561,714	6,131,830	3,830,476	963,454	805,116	758,411	502,435	26.00	19.70	29.40	17.00
Non-Farm Total:	27,903,228	22,844,868	21,589,839	12,201,188	5,637,878	4,922,024	4,817,188	2,731,876	22.10	14.50	99.10	99.60
Total	28,155,580	23,020,940	21,769,360	12,297,037	5,659,282	4,939,944	4,833,969	2,743,643	22.30	14.60	100.00	100.00

(1) Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2005 employment by industry data is not comparable with employment by industry data for the years 2000, 1990 and 1980. NAICS Industry groups and subgroups in the 2001 and 2005 data have been combined or extracted to approximate the SIC Industry groups listed for the years before 2001.

(2) The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

(3) The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS "Information" subcategories of "Broadcasting, except Internet" and "Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

(4) The NAICS "Accommodation and Food Services" subcategory of "Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

(5) The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

(6) The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, except Public Administration," and the subcategories, "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," "Information – Other Information Services" have been combined to approximate the SIC category "Services."

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Form of Opinion of Brownstein Hyatt Farber Schreck, P.C.]

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 2007B

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 2007B in the aggregate principal amount of $38,475,000 (the "Series 2007B Bonds"). The Series 2007B Bonds are being issued for the purpose of (i) originating or reimbursing the NMFA for moneys used to originate loans to or purchase securities from certain governmental entities ("Governmental Units") that were used to finance certain Projects for such Governmental Units ("Loans"); (ii) paying in full amounts owing under the line of credit established with the Bank of America, N.A. on May 23, 2007; (iii) purchasing a reserve surety bond for deposit to the Debt Service Reserve Account established for the Series 2007B Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007B 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 2007B 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 Seventh Supplemental Indenture of Trust dated as of June 1, 2007 (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 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 2007B 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 2007B 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 2007B 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.

4. The interest on the Series 2007B Bonds is excludable from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax on certain corporations. We express no opinion regarding other federal income tax consequences caused by the receipt or accrual of interest on or ownership of the Series 2007B Bonds.

5. The interest on the Series 2007B Bonds is exempt from income taxes imposed directly thereon by the State.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2007B 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 been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2007B Bonds or any other offering material relating to the Series 2007B Bonds and we express no opinion relating thereto;

(c) 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

(d) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

This letter is furnished by us as Bond Counsel, is solely for the benefit of the NMFA and may not be relied upon by any other person or entity. No conclusions or statements other than those expressly stated herein are intended nor should they be inferred. We disclaim any obligation to update, revise or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in the law, or in interpretations thereof, that may hereafter occur, or for any reason whatsoever. It should be noted that we are members of the Bar of the State of New Mexico and this opinion is limited in all respects to matters of New Mexico and federal law. This letter is not to be used, circulated, quoted or otherwise referred to for any other purpose without our express written permission.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2007B Bonds, payment of principal, premium, if any, interest on the Series 2007B Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2007B Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2007B Bonds. The Series 2007B 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 2007B Bond certificate will be issued for each maturity of the Series 2007B Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 2007B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007B 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 2007B Bonds, except in the event that use of the book-entry system for the Series 2007B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007B 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 2007B Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007B 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 2007B 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 2007B 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 the Series 2007B 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 2007B 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 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007B Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry only 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 2007B Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2007B 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 2007B Bonds.

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.

APPENDIX F

GOVERNMENTAL UNITS AND THEIR OUTSTANDING LOAN BALANCES

2007B Governmental Units

As previously stated, a portion of the proceeds of the Series 2007B bonds are being used to reimburse the NMFA for Loans previously made to the 2007B Governmental Units. The 2007B Governmental Units and the outstanding principal balances of their respective Loans are listed in the following table:

Governmental Unit	Original Loan Amount	Agreement Reserve Amount	Loan Maturity Date
Gadsden Independent School District	$1,500,000	–	08/15/2011
Village of Folsom	216,217	–	05/01/2017
Town of Bernalillo	190,122	–	05/01/2017
Village of Capitan	174,854	–	05/01/2017
Roosevelt County	377,778	$37,777	05/01/2013
Dexter Consolidated School District	580,000	–	08/01/2016
North Central Solid Waste Authority	1,000,000	100,000	05/01/2014
Town of Silver City	1,250,000	125,000	05/01/2014
Socorro County	265,292	15,291	05/01/2027
Curry County	455,556	45,555	05/01/2019
Pojoaque Valley Public Schools	1,900,000	–	08/01/2014
Rio Rancho, City of	1,649,286	152,120	05/01/2022
Espanola, City of	7,700,000	770,000	03/01/2025
Town of Taos	954,000	–	05/01/2027
Colfax County - Fire District #6	180,000	–	05/01/2022
Raton, City of	3,248,772	208,771	05/01/2032
Los Alamos County	5,861,189	361,188	05/01/2034
Bernalillo, Town of	377,428	27,427	05/01/2027
Chama Valley Independent School District	775,000	–	04/01/2018
Gallup-McKinley County School District	5,500,000	–	08/01/2020
Mosquero Municipal School District	500,000	–	04/01/2017
Mountainair Public School District	750,000	–	05/01/2016
Town of Hagerman	287,481	–	05/01/2016
Village of Fort Sumner	238,721	–	05/01/2018
T or C Municipal School District	1,750,000	–	08/01/2018
Tucumcari Municipal Schools	1,250,000	–	08/01/2020
Espanola, City of	300,000	30,000	05/01/2010
Corrales, Village of	1,035,000	99,518	05/01/2027
Bernalillo, Town of	3,280,329	256,328	05/01/2027
Guadalupe, County of	876,517	59,516	05/01/2027
Lordsburg Municipal School District	1,250,000	–	10/01/2017
Village of San Jon	20,000	–	05/01/2010
Estancia Valley Solid Waste Authority	85,000	–	05/01/2027
Town of Springer	17,500	–	05/01/2010
Village of Santa Clara	75,000	–	05/01/2017
Bayard, City of	50,326	–	05/01/2011
Otero County - Alamo West Fire Rescue	160,000	–	05/01/2017
Cibola County - Lobo Canyon FD	67,703	–	05/01/2017
DeBaca County - Lake Sumner VFD	75,000	–	05/01/2012
Village of Angel Fire	50,000	–	05/01/2012

(Source: NMFA.)

Largest Payors of Agreement Revenues

The following five Governmental Units represent the largest repayment obligations. Additional information concerning these Governmental Units is provided below.

Bernalillo County Metropolitan Court. New Mexico's court system consists of five levels of state funded courts. These five levels of courts include the Supreme Court, the Court of Appeals, the District Courts, the

Magistrate Courts, and the Metropolitan Courts. 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).

On April 5, 2005, the NMFA issued its $50,395,000 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D. Proceeds from the sale of the Series 2005C Bonds and Series 2005D Bonds were used by the NMFA to purchase $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 (the "Metro Court Bonds"). The Metro Court Bonds provided 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.

The Metro Court Bonds are payable solely from the Pledged Court Facilities Revenues, 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 resolution authorizing the issuance of the Metro Court Bonds will also be pledged to secure repayment of the Metro Court Bonds.

Pledged Court Facilities Revenues have been declining since fiscal year 2004. The NMFA and the Administrative Office of the Courts are in the process of assessing options to maintain revenues sufficient to satisfy the debt service obligations on the Metro Court Bonds. Neither the NMFA nor the Bernalillo County Metropolitan Court can predict with certainty the future growth or decline of court fees and penalty assessments.

Indictments were recently handed down against various parties that are accused of engaging in a scheme of kickback in connection with the construction of the Bernalillo County Metropolitan Court Building. The NMFA has not conducted a comprehensive investigation of the alleged kickback scheme that is the subject of the indictment. However, the NMFA is not aware of any relationship between the indictments and the decline in Pledged Court Facilities Revenues. The Administrative Office of the Courts has announced that it will conduct an audit of the Bernalillo County Metropolitan Court. The audit may include the Pledged Court Facilities Revenues.

Albuquerque-Bernalillo County Water Utility Authority. In the 2003 Regular Session, the New Mexico Legislature adopted legislation (Laws 2003, Chapter 437, codified as NMSA 1978, Section 72-1-10) creating the Albuquerque-Bernalillo County Water Utility Authority (the "ABCWUA") as a joint agency of the City of Albuquerque, New Mexico (the "City") and Bernalillo County. The ABCWUA is comprised of a board of three City Councilors, three County Commissioners and the Mayor of the City, which has jurisdiction over certain water facilities and properties (the "Water System") and certain sanitary sewer facilities and properties (the "Sewer System").

Pursuant to a Loan Agreement in the amount of $20,000,000 entered into on October 28, 2005 (the "ABCWUA Loan Agreement") between the ABCWUA and the NMFA, the ABCWUA pledged to the NMFA, on a parity basis with others, water and sewer systems revenues for the purpose of: acquiring, constructing, extending, enlarging, bettering, repairing, replacing, equipping or otherwise improving the water/sewer system, water, wastewater system including expenses related to: regular system improvements, expansion, maintenance and upgrades to operate a water and wastewater utility pursuant to the basic capital program and diversion of surface water from the San Juan Chama and delivering it for use by current and future users of the system. The NMFA issued its Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F to provide the funding for the ABCWUA Loan Agreement.

Water System. The Water System provides water services to approximately 518,623 customers comprising approximately 88% of the residents of Bernalillo County, New Mexico. About one-third of unincorporated Bernalillo County residents are customers of the Water System. As of April 30, 2006, the Water System provides service to approximately 171,500 accounts, including 154,800 residential and 15,300 multi-family, commercial, institutional and industrial accounts. Approximately 59% of the ABCWUA's water sales are for residential uses.

Ground water from the middle Rio Grande basin aquifer underlying the service area is presently the primary source of supply used for the Water System. The supply is produced from 93 wells grouped in 25 well fields located throughout the metropolitan area. Total well production capacity is approximately 294 million gallons per day ("MGD"). Maximum historical peak day demand is 214 MGD. A chlorination/fluoridation station associated with each well field satisfies the total required water treatment needs for the water produced in such well field.

Sewer System. The ABCWUA provides service to approximately 165,000 wastewater accounts, or 83% of Bernalillo County residents. The principal sanitary sewer facilities currently include a wastewater treatment plan with a cogeneration facility located south of the City and a sludge disposal site located west of the City. The Sewer System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows, by gravity to the Southside Water Reclamation Plant located south of the service area. The treatment plant provides preliminary screening, grit removal, primary clarification, and sludge removal, advanced secondary treatment including ammonia and nitrogen removal, final clarification, and effluent chlorination and de-chlorination prior to discharge to the Rio Grande.

Treatment capacity has in the past been based on 76 MGD hydraulic capacity. Existing flows at the plant are about 54 MGD. The ABCWUA has a fully operational industrial pretreatment program approved by the U.S. Environmental Protection Agency ("EPA") that was approved as a pilot program under the EPA's XL Program.

University of New Mexico—Subordinate Lien Cigarette Tax Bonds/UNM Health Sciences Center Project. On August 30, 2005, the NMFA issued its $23,630,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E. Proceeds from the sale of Series 2005E Bonds were primarily used by the NMFA to purchase Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Science Center Projects), Series 2005 (collectively, "the Subordinate Lien Cigarette Tax Revenue Bonds"). A portion of the proceeds of the Subordinate Lien Cigarette Tax Revenue Bonds will provide funds for improvements at the Health Science Center at the University of New Mexico in Albuquerque, New Mexico and a portion of the proceeds of the Subordinate Lien Cigarette Tax Revenue Bonds were used to refund a portion of the NMFA's Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate). The Subordinate Lien Cigarette Tax Bonds are payable from and secured by certain cigarette tax revenues required to be distributed to the NMFA on behalf of and for the benefit of the Health Science Center. As additional security for the Subordinate Lien Cigarette Tax Bonds, the NMFA has pledged, on a subordinate basis, the amounts on deposit in a credit enhancement account created by Section 6-21-6.7 NMSA 1978.

City of Santa Fe—Convention and Civic Center Loan. On March 28, 2006, the NMFA issued its $49,545,000 Subordinate Lien Public Project Revolving Fund Reserve Bonds, Series 2006A. A portion of the proceeds from the sale of the Series 2006A Bonds were used to finance the construction of a new Convention and Civic Center in the City of Santa Fe. The 72,000 square foot project will replace the existing Sweeney Convention Center and will nearly double the exhibit area floor space. The new Convention and Civic Center is expected to open in calendar year 2008. Pursuant to a Loan Agreement in the amount of $42,220,000 between the City of Santa Fe and the NMFA, the City of Santa Fe has pledged to the NMFA the City's Lodgers' Tax to the repayment of the loan.

Jicarilla Apache Water Utility Authority—Water Lease Revenues Loan. On November 7, 2006, the NMFA issued its $39,860,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2006C. A portion of the proceeds from the sale of the Series 2006C Bonds were used to finance a loan to the Jicarilla Apache Tribal Utility Authority (the "JATUA").

Specifically, on August 11, 2006, the JATUA and the NMFA entered into a Loan Agreement pursuant to which the NMFA agreed to lend to the JATUA $21,650,229 for the purpose of constructing, purchasing and equipping portions of the water utilities system operated by JATUA. The NMFA and the Jicarilla Apache Nation also entered into an Agreement Regarding Loan pursuant to which the Nation pledged the moneys deposited to an account created for the deposit of all water lease revenues ("Water Lease Revenues") received from the various third parties that have entered into water leases with the Nation, whether now existing or subsequently entered into (the

"Water Leases"), to the payment of principal, interest and administrative fees due under the Loan Agreement. The JATUA itself has pledged no security to make payments under the Loan Agreement.

To date, the Nation has executed eight Water Leases. These Water Leases generated approximately $2,855,822 of Water Lease Revenue for calendar year 2006. The Nation's two largest Water Leases are described below.

The Nation has a water lease of San Juan-Chama Project Contract Water to the City of Santa Fe (the "Santa Fe Lease") pursuant to which the Nation will lease 3,000 acre feet of water for $500 per acre foot per year with annual rate increases tied to the consumer price index and market changes. The Santa Fe Lease is terminable by the City for any reason with four years' prior written notice and five years of annual payments following notice of termination. The Nation also has an additional 3,500 acre feet of water available for long term lease to any third party for use in the Rio Grande Basin.

The Nation also has approved leases of Contract Water in the San Juan Basin. In the San Juan Basin, the Nation's largest lease is to the Public Service Company of New Mexico ("PNM") (the "PNM Lease"). Pursuant to the provisions of the PNM Lease, the Nation will lease 16,200 acre feet of water to PNM for $75 an acre foot a year with annual rate increases based on a calculated delivery rate (dollars per acre foot) set by the United States Bureau of Reclamation ("Reclamation") for Colorado River Storage Project contracts. The PNM Lease is terminable by PNM if PNM decides to deactivate, decommission or cease operation of all or a portion of the San Juan Generating Station. Thirty days' written notice is required. Liquidated damages require annual payment equal to that of the previous 12 months. The Nation also has an additional 8,500 acre feet available for long-term lease to any third party for use in the San Juan Basin.

APPENDIX G

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 2007B 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 2007B 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 2002-2003 Through 2006-07 (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;

- 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;

- 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 2007B 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 2007B Bonds;

- modification of rights of security holders;

- bond calls;

- defeasances;
- release, substitution, or sale of property securing repayment of the Series 2007B 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 2007B 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.

APPENDIX H

FORM OF SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

____
President

Attest: ____________________________
Assistant Secretary

STD-R-7
01/05

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NEW MEXICO FINANCE AUTHORITY • SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS, SERIES 2007B

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NEW ISSUE – Book-Entry Only

Insured/Underlying Ratings: Moody's "Aaa"; "Aa3"
S&P "AAA"; "A+"
Fitch "AAA"; "AA-"
MBIA Insured
(See "RATINGS" herein.)

In the opinion of Brownstein Hyatt Farber Schreck, P.C., Bond Counsel to the NMFA, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Series 2007C Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2007C Bonds is exempt from State of New Mexico personal income taxes as described herein. See "TAX MATTERS" regarding certain other tax considerations.

$131,860,000

NEW MEXICO FINANCE AUTHORITY
SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS, SERIES 2007C

Dated: Date of initial delivery **Due: June 15, as shown on inside cover**

The New Mexico Finance Authority Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2007C 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 of the Series 2007C 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 2007C Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2007C Bonds will be made in book-entry form only, and beneficial owners of the Series 2007C 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 2007C Bonds.

The Series 2007C Bonds will be issued under and secured by the Subordinated General Indenture of Trust and Pledge. Interest on the Series 2007C Bonds accrues from the date of initial delivery of the Series 2007C Bonds and is payable on June 15 and December 15 of each year, commencing June 15, 2008. Principal of the Series 2007C 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 2007C Bonds are subject to redemption prior to maturity.

Proceeds of the Series 2007C Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to or purchase securities from certain governmental entities that will be or were used to finance certain Projects for such governmental entities; (ii) retiring a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007C Bonds; (iii) purchasing a debt service reserve fund surety bond for deposit into the Debt Service Reserve Account established for the Series 2007C Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007C Bonds. The principal of and premium, if any, and interest on the Series 2007C 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 2007C 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 2007C Bonds.

The Series 2007C 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 2007C 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 2007C Bonds will be construed or interpreted 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 2007C Bonds do not constitute or give rise to personal liability on the part of the members, directors or officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Simultaneously with the delivery of the Series 2007C Bonds, a financial guaranty insurance policy will be issued by MBIA Insurance Corporation insuring the payment of principal and interest on the Series 2007C Bonds when due. See "BOND INSURANCE" herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Certain legal matters concerning the legality of the Series 2007C Bonds will be passed on by Brownstein Hyatt Farber Schreck, P.C., Albuquerque, New Mexico, Bond 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 Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Disclosure Counsel to the NMFA. The General Counsel of the NMFA will deliver a non-litigation certification for the NMFA. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the Series 2007C Bonds. It is expected that a single certificate for each maturity of the Series 2007C Bonds will be delivered to DTC or its agent on or about September 26, 2007. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2007C Bonds.

RBC Capital Markets

Piper Jaffray & Co. **Ramirez & Co., Inc.**

This Official Statement is dated August 23, 2007 and the information contained herein speaks only as of that date.

$131,860,000
NEW MEXICO FINANCE AUTHORITY
SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS,
SERIES 2007C

MATURITY SCHEDULE

Year (June 15)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2008	$2,500,000	4.250%	3.680%	64711M 5J2
2009	4,315,000	4.250	3.730	64711M 5K9
2010	4,855,000	4.250	3.780	64711M 5L7
2011	2,000,000	4.250	3.830	64711M 5M5
2011	2,405,000	5.000	3.830	64711M 6E2
2012	2,500,000	4.250	3.900	64711M 5N3
2012	2,370,000	5.000	3.900	64711M 6F9
2013	1,585,000	4.250	3.970	64711M 5P8
2013	5,730,000	5.000	3.970	64711M 6G7
2014	2,100,000	4.500	4.050	64711M5Q6
2014	4,800,000	5.000	4.050	64711M 6H5
2015	100,000	4.500	4.140	64711M 5R4
2015	7,155,000	5.000	4.140	64711M 6J1
2016	1,350,000	4.500	4.230	64711M 5S2
2016	5,610,000	5.250	4.230	64711M 6K8
2017	1,000,000	4.500	4.300	64711M 5T0
2017	7,465,000	5.250	4.300	64711M 6L6
2018	10,940,000	5.250	4.420[c]	64711M 5U7
2019	12,435,000	5.250	4.500[c]	64711M 5V5
2020	7,240,000	5.250	4.560[c]	64711M 5W3
2021	7,320,000	5.250	4.610[c]	64711M 5X1
2022	6,655,000	5.250	4.650[c]	64711M5Y9
2023	11,120,000	5.250	4.690[c]	64711M 5Z6
2024	8,365,000	5.000	4.810[c]	64711M 6A0
2025	6,155,000	5.250	4.740[c]	64711M 6B8
2026	1,845,000	5.250	4.760[c]	64711M 6C6
2027	1,945,000	5.250	4.780[c]	64711M 6D4

(c) Priced to call on June 15, 2017.

† The above referenced CUSIP number(s) have been assigned by an independent company not affiliated with the parties to this bond transaction and are included solely for the convenience of the holders of the Series 2007C Bonds. Neither the NMFA, the Trustee nor the Underwriters is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to its correctness on the Series 2007C Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2007C Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

The information set forth herein has been obtained from the NMFA, DTC, the Insurer and other sources that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the NMFA, or in any other information contained herein since the date hereof.

No dealer, broker, salesman or any other person has been authorized by the NMFA, the Insurer or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy nor shall there be any sale of the Series 2007C Bonds by any person in any jurisdiction in which it is unlawful for such offer, solicitation or sale.

All inquiries relating to this Official Statement and the offering contemplated herein should be directed to the Underwriters. Prospective investors may obtain additional information from the Underwriters or the NMFA which they may reasonably require in connection with the decision to purchase any of the Series 2007C Bonds from the Underwriters.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Forward-looking statements are included in the Official Statement under the caption "THE PLAN OF FINANCING—Estimated Sources and Uses of Funds." The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

The yields at which the Series 2007C Bonds are offered to the public may vary from the initial reoffering yields on the inside front cover page of this Official Statement. In connection with this offering, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect market prices of the Series 2007C Bonds. Such transactions, if commenced, may be discontinued at any time.

The NMFA maintains a website; however, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2007C Bonds.

THE SERIES 2007C BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW AND WILL NOT BE LISTED ON ANY STOCK OR OTHER SECURITIES EXCHANGE. THE SERIES 2007C BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NEW MEXICO FINANCE AUTHORITY
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Salt Lake City, Utah

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Bank of Albuquerque, N.A.
Albuquerque, New Mexico

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OFFICIAL STATEMENT

RELATING TO

$131,860,000
NEW MEXICO FINANCE AUTHORITY
SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS, SERIES 2007C

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 2007C (the "Series 2007C Bonds") being issued by the New Mexico Finance Authority (the "NMFA"). The Series 2007C 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, dated as of March 1, 2005, as previously supplemented (the "General Indenture"), and as supplemented by an Eighth Supplemental Indenture of Trust, dated as of August 1, 2007 (the "Eighth Supplemental Indenture" and collectively with the General Indenture, the "Indenture") all 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."

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. For additional information concerning the NMFA, see "NEW MEXICO FINANCE AUTHORITY," the NMFA's financial statements for the fiscal year ended June 30, 2006 included as APPENDIX A hereto.

Authority and Purpose

The Series 2007C 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" herein.

Proceeds from the sale of the Series 2007C Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities ("2007C Governmental Units") that will be or were used to finance certain Projects for such 2007C Governmental Units; (ii) retiring a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007C Bonds; (iii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007C Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007C Bonds. See "THE PLAN OF FINANCING" and APPENDIX F for a list of the 2007C Governmental Units and the amounts of the loans financed with the 2007C Bonds.

Parity Obligations

Bonds and other obligations with a lien on the Trust Estate in parity with the lien of the Series 2007C 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 (the "Outstanding Parity Bonds"), see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Outstanding Parity Bonds."

The Series 2007C Bonds

The Series 2007C Bonds will be dated the date of their initial delivery. Interest on the Series 2007C Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2008. The Series 2007C 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. The Series 2007C Bonds are issuable in denominations of $5,000 or integral multiples of $5,000.

Individual purchases will be made in book-entry only form, and purchasers of the Series 2007C 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 2007C 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 2007C Bonds, all as more fully described in APPENDIX E. In reading this Official Statement, it should be understood that while the Series 2007C 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 2007C Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system as described in APPENDIX E, and (ii) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption

The Series 2007C Bonds are subject to redemption prior to maturity. See "THE SERIES 2007C BONDS—Redemption."

Security and Sources of Payment

Special Limited Obligations. The Bonds, including the Series 2007C 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: (i) moneys from the repayment by governmental borrowers of loans made or securities issued to finance a project under the Indenture ("Agreements"); (ii) 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; (iii) 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 (ii) in this paragraph, the "Subordinate Lien PPRF Revenues"); (iv) 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 (v) certain funds and accounts created and maintained pursuant to the Indenture. 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" herein. Moneys from the sources described in (ii) and (iii) above may be released from the Indenture on June 16 of each year. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

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. No provision of the Series 2007C Bonds will be construed or interpreted 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 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 2007C 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 2007C 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—Other Funds and Accounts."

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 and obligations 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 are 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."

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 2007C Bonds. The NMFA must satisfy certain requirements set forth in the Indenture to issue such Additional Bonds. The timing, amount and other details of such Additional Bonds are not known as of the date of this Official Statement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Bonds."

Bond Insurance

Simultaneously with the delivery of the Series 2007C Bonds, a financial guaranty insurance policy (the "Bond Insurance Policy") will be issued by MBIA Insurance Corporation ("MBIA" or the "Bond Insurer") insuring the payment of principal of and interest on the Series 2007C Bonds when due. See "BOND INSURANCE" herein.

Continuing Disclosure

The NMFA has undertaken for the benefit of the Series 2007C Bond Owners that, so long as the Series 2007C 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. The Continuing Disclosure Undertaking is summarized in "APPENDIX H—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. The provisions of the Continuing Disclosure Undertaking may be amended under certain circumstances. See "CONTINUING DISCLOSURE UNDERTAKING."

Tax Considerations

In the opinion of Brownstein Hyatt Farber Schreck, P.C., Bond Counsel to the NMFA, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Series 2007C Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2007C Bonds is exempt from State of New Mexico personal income taxes as described herein. See "TAX MATTERS" regarding certain other tax considerations.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2007C Bonds, Brownstein Hyatt Farber Schreck, P.C., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in the form included in APPENDIX D. Certain legal matters will be passed upon by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Disclosure Counsel to the NMFA. The General Counsel of the NMFA will provide a non-litigation certification for the NMFA. Western Financial Group, LLC, Lake Oswego, Oregon, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2007C Bonds. See "FINANCIAL ADVISOR" herein. Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico has acted as counsel to the Underwriters in connection with the issuance of the Series 2007C Bonds.

The NMFA's audited financial statements for the fiscal year ended June 30, 2006, included in APPENDIX A hereto, have been audited by Meyners & Company, Certified Public Accountants, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS."

Offering and Delivery of the Series 2007C Bonds

The Series 2007C 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 2007C Bonds will be delivered to DTC or its agent on or about September 26, 2007. The Series 2007C Bonds will be distributed in the initial offering by RBC Capital Markets, Piper Jaffray & Co. and Ramirez & Co., Inc. (collectively, the "Underwriters"), for which RBC Capital Markets is acting as managing underwriter and representative of the Underwriters (in such role, the "Representative").

Other Information

This Official Statement speaks only as of its date, and the information in it is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents in this Official Statement do not purport to be complete, and reference is made to those laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Financial Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and any purchaser or holder of Series 2007C Bonds.

THE SERIES 2007C BONDS

General

The Series 2007C Bonds will be dated as of the date of their delivery and interest will accrue on the Series 2007C Bonds from such 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, 2008. The Series 2007C 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 2007C 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 2007C 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 2007C Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2007C Bonds will be made in book-entry only form, and beneficial owners of the Series 2007C 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 2007C Bonds. For a more complete description of the book-entry only system, see "APPENDIX E—BOOK-ENTRY ONLY SYSTEM" herein.

Redemption

Optional Redemption. The Series 2007C Bonds maturing on or after June 15, 2018 are subject to optional redemption at any time on and after June 15, 2017, 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 General Indenture and at the redemption price of 100% of the principal amount of the Series 2007C Bonds to be redeemed, plus interest accrued to the redemption date.

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 2007C Bonds, are special limited obligations of the NMFA payable solely from the Trust Estate. The Series 2007C 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. No provision of the Series 2007C Bonds will be construed or interpreted 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 principal of and interest and premium, if any, on the Series 2007C Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

Trust Estate

In the Indenture, the NMFA pledges and assigns the Trust Estate, 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: (i) Agreement Revenues; (ii) Additional Pledged Revenues; (iii) Subordinate Lien PPRF Revenues; and (iv) 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."

Agreement Revenues. The Agreements consist of Loan Agreements and Securities (each as defined in the Indenture) 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 (i) revenues of specific enterprise systems or revenues attributable to certain taxes (the "Agreement Revenues") and (ii) moneys in certain funds and accounts held by the Trustee. Each Governmental Unit executing a Loan Agreement or issuing Securities agrees to 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. Each Governmental Unit that has entered into a Loan Agreement or has issued Securities has pledged specific Agreement Revenues to the repayment of its Loan. See APPENDIX F for a list of the 2007C Governmental Units and the allocable portions of the Loans financed with the Series 2007C Bonds. Also, please see APPENDIX F and APPENDIX G for information relating to the largest repayment obligations. 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.

The following table lists the ten Agreements that, based on scheduled payments in fiscal year 2007-08 and assuming no prepayments of the Agreements, are expected to generate the largest Agreement Revenues in fiscal year 2007-08. These ten Agreements comprise 77.65% of projected Agreement Revenues for fiscal year 2007-08.

AGREEMENTS EXPECTED TO GENERATE AGREEMENT REVENUES[(1)]

Obligor/Issuer	FY 2007-08 Loan Payment	% of Projected FY 2007-08 Agreement Revenues	Final Maturity
Gadsden Independent School District	$7,980,925	20.36%	8/01/2011
Albuquerque Bernalillo County Water Utility Authority	5,906,680	15.07	6/01/2032
NMFA (Metro Court Bonds)	4,481,178	11.43	6/15/2025
Farmington Municipal Schools	2,638,320	6.73	9/01/2007
City of Santa Fe	2,556,223	6.52	6/01/2035
City of Las Cruces	1,679,530	4.28	6/01/2027
Jicarilla Apache Utility Authority	1,595,408	4.07	5/01/2026
Gallup-McKinley County Public Schools	1,358,745	3.47	8/01/2020
NMFA (2005 Subordinate Lien Cigarette Tax Bonds)	1,161,663	2.96	6/15/2025
City of Rio Rancho SAD #6	1,083,515	2.76	5/01/2016
Total	$30,442,187	77.65%	

(1) Based on scheduled fiscal year 2007-08 debt service and assumes no prepayment or redemption.
(Source: NMFA.)

Although Agreement Revenues are received at various times throughout the year, they are held under the Indenture until June 15 of each year to be applied to pay debt service on the Bonds. For more information with respect to Agreement Revenues and Governmental Units, see “APPENDIX F—2007C GOVERNMENTAL UNITS AND LARGEST REPAYMENT OBLIGATIONS” and “APPENDIX G—INFORMATION REGARDING ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY” hereto.

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 of Subordinate Lien PPRF Revenues.

The NMFA may require and has previously required the establishment and funding of an 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.

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. 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” herein. At the present, the NMFA has not designated any sources of revenues or “Additional Pledged Revenues.”

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 (the “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 moneys released from the Senior Indenture on June 1 of each Bond Fund Year 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).

The following table shows, for fiscal years 2002-03 through 2006-07, the amounts released to the NMFA from the Senior Indenture, which represent the amounts that would be included as Historic Subordinate Lien PPRF Revenues under the Indenture.

HISTORIC SUBORDINATE LIEN PPRF REVENUES
FISCAL YEARS 2002-03 THROUGH 2006-07
(RELEASED TO INDENTURE ON JUNE 1)

Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07
$18,138,693	$18,185,919	$37,894,840[1]	$25,324,966	$33,511,437

(1) 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 Governmental Gross Receipts Tax. Pursuant to Section 7-1-6.38, NMSA 1978, the Public Project Revolving Fund administered by the NMFA is allocated seventy-five percent (75%) (the "NMFA Portion of the Governmental Gross Receipts Tax") of all net receipts of a governmental gross receipts tax which is levied and collected pursuant to Section 7-9-4.3, NMSA 1978. The governmental gross receipts tax was enacted into law and first imposed in 1991 at a rate of five percent on governmental gross receipts. 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 (i) the sale of tangible personal property other than water from facilities open to the general public; (ii) the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public; (iii) refuse collection, refuse disposal or both; (iv) sewage services; (v) the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the State; and (vi) the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tiedown aircraft or dock boats.

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

Certain receipts are excluded from the governmental gross receipts tax, including (i) receipts from the sale of gas or electricity by a utility owned or operated by a county, municipality or other political subdivision, (ii) receipts from operation of a cable television system owned or operated by a municipality, (iii) receipts from the sale of livestock, receipts of growers, producers, trappers or nonprofit marketing associations from selling livestock, live poultry, and (iv) receipts from certain activities at a minor league baseball stadium.

In addition, there are certain deductions from the governmental gross receipts tax, including (i) certain receipts from selling tangible personal property to the United States or the State, (ii) receipts from selling tangible personal property to an Indian tribe, nation or pueblo, (iii) receipts from transactions in interstate commerce, (iv) 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, and (v) 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 2002-03 through 2006-07.

GOVERNMENTAL GROSS RECEIPTS TAX COLLECTIONS
FISCAL YEARS 2002-2003 THROUGH 2006-07

	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07[1]
Total Net Receipts	$22,908,393	$24,491,159	$24,593,886	$25,916,537	$26,494,223
NMFA Portion of the Governmental Gross Receipts Tax	$17,181,295	$18,368,369	$18,445,414	$19,689,576	$20,376,781

(1) This figure is based on actual collections through May 2007 and estimate of collections for June 2007.
(Source: State of New Mexico Taxation and Revenue Department.)

The information presented below relates to the ten top payers of the governmental gross receipts tax for fiscal years 2003-04 through 2005-06. Such information is for informational purposes and is presented to show trends of the receipt of governmental gross receipts tax. Such information is not publicly available from the State and has instead been obtained from each individual entity and is believed to be reliable. However, the NMFA has not verified and does not guarantee the accuracy of any such information.

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TOP PAYERS OF GOVERNMENTAL GROSS RECEIPTS TAXES[1]
FISCAL YEARS 2003-04 THROUGH 2005-06

Entity	Fiscal Year 2003-04 Amount Paid	Fiscal Year 2003-04 % of Total Net Receipts	Fiscal Year 2004-05 Amount Paid	Fiscal Year 2004-05 % of Total Net Receipts	Fiscal Year 2005-06 Amount Paid	Fiscal Year 2005-06 % of Total Net Receipts
Albuquerque Bernalillo County Water Utility Authority	$5,992,345	24.47%	$5,840,450	23.75%	$6,204,046	25.23%
City of Albuquerque	2,393,510	9.77	3,014,954	12.26	3,135,295	12.75
City of Santa Fe	2,335,710	9.54	2,161,898	8.79	2,110,865	8.58
City of Las Cruces	1,240,693	5.07	1,273,532	5.18	1,390,969	5.66
University of New Mexico	1,111,129	4.54	1,286,475	5.23	1,198,860	4.87
City of Rio Rancho	807,306	3.30	876,666	3.56	1,005,457	4.09
City of Farmington	664,164	2.71	673,920	2.74	678,451	2.76
City of Roswell	551,411	2.25	531,245	2.16	556,207	2.26
County of Los Alamos	478,477	1.95	443,102	1.80	488,464	1.99
City of Gallup	347,556	1.42	396,420	1.61	308,208	1.25
Total	$15,922,302	65.01%	$16,498,662	67.08%	$17,076,822	69.44%

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(1) Unaudited.
(Sources: Listed entities. No representation regarding the accuracy of such information is made by the NMFA.)

Funds and Accounts

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 all of which are part of the Trust Estate. Amounts on deposit in accounts in each Debt Service Reserve Account and in each Agreement Reserve Account shall only secure repayment of the Loan made under the related Agreement.

Flow of Funds

Loan Payments. 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).

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 (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. 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 remaining excess will be deposited into the Revenue Fund.

Revenue Fund. During each Bond Fund Year, (i) 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, (ii) all 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 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 funds 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:

(a) 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.

(b) 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 which has occurred that has not otherwise been rectified.

(c) 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:

(a) To the extent the Debt Service Reserve Requirement, if any, is not funded with a Reserve Instrument or Instruments, (i) 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 (ii) 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

(b) 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 (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 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. At this point, the NMFA has not entered into any counterparty transactions with respect to the PPRF.

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 2007C Bonds in 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 two percent 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; or (iii) 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 agreements, 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.

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. Neither the outstanding Bonds nor the Series 2007C Bonds are subject to mandatory redemption under such circumstances. With respect to the Series 2007C Bonds, the Indenture instead provides that, for the purpose of matching, to the extent practicable, (i) the revenues received from Loan Payments received pursuant to Loans reimbursed or originated with proceeds of the Series 2007C Bonds with debt service payable on Series 2007C Bonds, and (ii) the overall debt service requirements on the Outstanding Bonds and the Series 2007C Bonds with revenues received from Loan Payments on all outstanding Loans, the NMFA shall, within 365 days following the receipt of a Prepayment, in part or in full, of a Loan reimbursed with proceeds of Series 2007C Bonds, take separately or in combination any one or more of the actions described in subsections (a), (b) or (c) of this Section:

(a) The NMFA may, to the extent practicable, call for optional redemption prior to maturity Series 2007C Bonds which are subject to redemption, selecting Series 2007C 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 pursuant to this Subsection); or

(b) The NMFA may, to the extent practicable, originate one or more new Loans (i) in an aggregate principal amount equal to or greater than the amount of the Prepayment (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied pursuant to this Subsection), and (ii) with a final maturity date and debt service requirements approximating the final maturity date and debt service requirements of the Loan pursuant to which the Prepayment was made (or a pro-rata portion thereof in the event that only a portion of the Prepayment is applied pursuant to this Subsection). The NMFA shall provide a Cash Flow Statement to the Trustee establishing that, in taking the actions described in subsection (b) of this Section, the requirements of the Cash Flow Statement, as defined in of the Indenture, are satisfied.

(c) In the event that the NMFA does not take one of the actions described in either subsections (a) or (b) of this Section, the NMFA shall defease Series 2007C Bonds, in Authorized Denominations, to the first optional redemption date for such Series 2007C Bonds, 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 pursuant to this Subsection). The principal amount and maturity date of the Series 2007C 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 which is consistent with the actions taken as described in subsections (a), (b) or (c) of this Section.

(d) If, within 90 days following the receipt of a Prepayment, the NMFA has not either redeemed Bonds as provided in Subsection (a) of this Section or originated one or more new Loans as provided in Subsection (b) of this Section, the NMFA shall restrict the yield on investment of the Prepayment amount to the yield on the Loan for 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 Series 2007C Bonds have been defeased as provided in Subsection (c) of this Section.

To date, the NMFA has not received any Prepayments on loans or securities pledged as Loans or Additional Pledged Loans under the General Indenture, as previously supplemented.

Additional Bonds

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:

(a) The 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. A Cash Flow Statement incorporates a variety of items including revenues, debt service, loan prepayments and discount factors for certain types of Loans and more particularly described in "APPENDIX B—EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE."

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

(c) The proceeds of the Additional Bonds, 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.

(d) No Event of Default has occurred and is continuing under the Indenture, except that the foregoing will not preclude the issuance of Additional Bonds, 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.

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 has previously issued other Series of Bonds that are outstanding under the Indenture. The various Series of Bonds, their original principal amounts and their aggregate principal amounts outstanding as of August 1, 2007 are set forth below.

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Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of August 1, 2007[1]
2005C [2] [3]	$50,395,000	$50,395,000
Taxable 2005D [2] [3]	8,660,000	2,525,000
2005E[4]	23,630,000	23,630,000
2005F[5]	21,950,000	21,215,000
2006A[5]	49,545,000	49,490,000
2006C[5]	39,860,000	39,095,000
2007A[5]	34,010,000	33,695,000
2007B[5]	38,475,000	38,475,000
Total	$266,525,000	$258,520,000

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(1) Bonds mature on June 15.

(2) The Series 2005C and Series 2005D Bonds were issued to refinance bonds issued in 2001, 2002 and 2003 to finance a new Metropolitan Courthouse Complex located in downtown Albuquerque (the "Metro Court"). It should be noted that revenues that provide the source of repayment for the Series 2005C and the Series 2005D Bonds have recently declined. In addition, indictments were recently handed down against various parties that are accused of engaging in a scheme of kickbacks in connection with the construction of the Metro Court. The NMFA has not conducted a comprehensive investigation of the alleged kickback scheme that is the subject of the indictments. However, the NMFA is not aware of any relationship between the indictments and the decline in the revenues that provide the source of repayment for the Series 2005C and Series 2005D Bonds. See "APPENDIX F—2007C GOVERNMENTAL UNITS AND LARGEST REPAYMENT OBLIGATIONS—Agreements Generating Largest Amount of Agreement Revenues—Bernalillo County Metropolitan Court Bonds" hereto.

(3) The official statement for the NMFA's Series 2005C Bonds and Series 2005D Bonds, which includes information concerning the Metro Court Bonds, is available at the Internet site http://www.munios.com.

(4) The official statement for the NMFA's Series 2005E Bonds, which includes information concerning the 2005 Subordinate Lien Cigarette Tax Bonds, is available at the Internet site http://www.munios.com.

(5) The official statement for this Series of Bonds is available at the Internet site http://www.munios.com.

(Source: Western Financial Group, LLC.)

See "ANNUAL DEBT SERVICE REQUIREMENTS" for Debt Service Requirements on the Outstanding Bonds and aggregate payments under Agreements.

The NMFA plans to issue a series of Additional Bonds in December 2007. The NMFA anticipates that such additional series will be issued in the approximate aggregate principal amount of $55,250,000. The NMFA may issue additional bonds pursuant to the Indenture from time to time to satisfy the financing needs of governmental entities in the State of New Mexico.

Outstanding Senior Bonds

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 (i) 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"; (ii) 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); (iii) all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Senior Indenture; and (iv) all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Senior Indenture.

The NMFA plans to issue a series of Additional Senior Bonds in November 2007 in the approximate aggregate principal amount of $60,000,000. In addition, the NMFA expects to issue, additional Senior Bonds under the Senior Indenture from time to time to satisfy the financing needs of governmental entities of the State of New Mexico. 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 were outstanding as of August 1, 2007 under the Senior Indenture.

Series	Original Principal Amount Issued	Aggregate Principal Amount Outstanding as of August 1, 2007[1]
1999A	$13,135,000	$7,100,000
1999B	3,025,000	1,235,000
1999C	2,265,000	765,000
1999D	4,875,000	2,260,000
2000A	4,715,000	1,055,000
2000B	7,670,000	705,000
2000C	28,850,000	1,640,000
2002A	55,610,000	23,000,000
2003A	39,945,000	23,799,000
2003B	25,370,000	21,470,000
2004A-1	28,410,000	21,540,000
2004A-2	14,990,000	13,315,000
2004B-1	48,135,000	40,170,000
2004B-2	1,405,000	1,185,000
2004C	168,890,000	151,540,000
2005A	19,015,000	16,595,000
2005B	13,500,000	13,225,000
2006B	38,260,000	37,605,000
2006D	56,400,000	52,645,000
Total Outstanding	$574,465,000	$430,849,000

(1) Senior Bonds mature on June 1.
(Source: Western Financial Group, LLC.)

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, to be 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 to be 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 MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to APPENDIX I for a specimen of MBIA's policy (the "Bond 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 2007C Bonds or the advisability of investing in the Series 2007C Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the NMFA to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2007C Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 2007C Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2007C Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2007C Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Series 2007C Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2007C 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 2007 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 2007C Bonds or presentment of such other proof of ownership of the Series 2007C Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007C Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2007C Bonds in any legal proceeding related to payment of insured amounts on the Series 2007C 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 2007C Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. (“MBIA Mexico”), through which it intends to write financial guarantee insurance in Mexico beginning in 2007.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The 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 2007C 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 2007C Bonds. MBIA does not guaranty the market price of the Series 2007C Bonds nor does it guaranty that the ratings on the Series 2007C Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, MBIA had admitted assets of $10.8 billion (unaudited), total liabilities of $6.8 billion (unaudited), and total capital and surplus of $4.0 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, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, 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, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and

June 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2007, 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, 2006; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2007C Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) 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.

Debt Service Reserve Fund Surety Bond

MBIA has provided a commitment to issue a surety bond (the "Debt Service Reserve Fund Surety Bond"), which constitutes a Reserve Instrument. The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Paying Agent to MBIA to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Series 2007C Bonds, the Insurer will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the Series 2007C Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by MBIA of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the Series 2007C Bonds as specified in the Demand for Payment presented by the Paying Agent to MBIA, MBIA 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 to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by MBIA with the Paying Agent which have not been reimbursed by the NMFA. The NMFA and MBIA will enter into a Financial Guaranty Agreement dated as of September 1, 2007 (the "Guaranty Agreement"). Pursuant to the Guaranty Agreement, the NMFA is required to reimburse MBIA, within one year of any deposit, the amount of such deposit made by MBIA with the

Paying Agent under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made from amounts on deposit in the Revenue Fund only after all required deposits to the Bond Fund have been made.

Under the terms of the Guaranty Agreement and the Indenture, the Paying Agent is required to reimburse MBIA, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated before any additional moneys are transferred from the Revenue Fund from the NMFA for purposes permitted under the Indenture. Optional redemption of the Series 2007C Bonds may be made until MBIA's Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Paying Agent in the Debt Service Reserve Fund and is provided as an alternative to the NMFA depositing funds equal to the Debt Service Requirement for outstanding Series 2007C Bonds. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to the Debt Service Reserve Requirement for the Series 2007C Bonds and the premium therefor will be fully paid by the NMFA at the time of delivery of the Series 2007C Bonds.

THE PLAN OF FINANCING

Purposes of the Series 2007C Bonds

Proceeds of the Series 2007C Bonds will be used by the NMFA for the purposes of (i) reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, the 2007C Governmental Units that will be or were used to finance certain Projects for such 2007C Governmental Units; (ii) retiring a borrowing of the NMFA incurred in anticipation of the issuance of the Series 2007C Bonds; (iii) purchasing a debt service reserve fund surety bond for deposit to the Debt Service Reserve Account established for the Series 2007C Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007C Bonds. See APPENDIX F for a list of the 2007C Governmental Units and the amount of the Loans financed with the Series 2007C Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2007C Bonds are presented in the following table.

Sources of Funds

Par Amount	$131,860,000.00
Net Premium/Discount	5,919,810.10
Total	$137,779,810.10

Uses of Funds

Reimbursement of Loans[1]	$80,287,340.03
Repayment of Interim Borrowing	55,952,879.32
Costs of Issuance[2]	1,539,590.75
Total	$137,779,810.10

(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 municipal bond insurance and reserve fund surety and other miscellaneous costs. See "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the total debt service payable for the Series 2007C Bonds and all currently Outstanding Bonds for each fiscal year through their respective final maturity dates.

DEBT SERVICE FOR THE BONDS[1]

	Series 2007C Bonds				
Fiscal Year	Principal[2]	Interest[3]	Total	All Other Subordinate Parity Bonds[4]	Total Subordinate Parity Bonds
2008	$2,500,000	$4,772,732	$7,272,732	$18,543,693	$25,816,425
2009	4,315,000	6,527,663	10,842,663	22,697,425	33,540,088
2010	4,855,000	6,344,275	11,199,275	21,012,738	32,212,013
2011	4,405,000	6,137,938	10,542,938	20,542,275	31,085,213
2012	4,870,000	5,932,688	10,802,688	21,062,238	31,864,926
2013	7,315,000	5,707,938	13,022,938	20,885,763	33,908,701
2014	6,900,000	5,354,075	12,254,075	21,360,513	33,614,588
2015	7,255,000	5,019,575	12,274,575	20,908,688	33,183,263
2016	6,960,000	4,657,325	11,617,325	21,507,350	33,124,675
2017	8,465,000	4,302,050	12,767,050	22,193,125	34,960,175
2018	10,940,000	3,865,138	14,805,138	21,818,250	36,623,388
2019	12,435,000	3,290,788	15,725,788	20,705,300	36,431,088
2020	7,240,000	2,637,950	9,877,950	21,436,794	31,314,744
2021	7,320,000	2,257,850	9,577,850	20,672,144	30,249,994
2022	6,655,000	1,873,550	8,528,550	18,876,944	27,405,494
2023	11,120,000	1,524,163	12,644,163	18,574,525	31,218,688
2024	8,365,000	940,363	9,305,363	18,377,275	27,682,638
2025	6,155,000	522,113	6,677,113	18,813,025	25,490,138
2026	1,845,000	198,975	2,043,975	7,620,225	9,664,200
2027	1,945,000	102,113	2,047,113	5,098,438	7,145,551
2028	–	–	–	3,406,150	3,406,150
2029	–	–	–	3,409,150	3,409,150
2030	–	–	–	3,411,150	3,411,150
2031	–	–	–	3,411,900	3,411,900
2032	–	–	–	3,412,338	3,412,338
2033	–	–	–	3,216,088	3,216,088
2034	–	–	–	3,217,150	3,217,150
2035	–	–	–	2,861,250	2,861,250
Total	$131,860,000	$71,969,257	$203,829,257	$409,051,904	$612,881,161

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(1) Amounts are rounded to the nearest whole dollar.
(2) Payable on June 15 of each year.
(3) Payable on June 15 and December 15 of each year, commencing June 15, 2008.
(4) Represents principal of and interest on Bonds outstanding as of August 1, 2007.
(Source: Western Financial Group, LLC.)

The following table shows estimated available revenues pledged to the payment of the Subordinate Bonds, total debt service requirements for the Series 2007C Bonds and all other outstanding Bonds and the resulting estimated annual coverage ratios. Revenues for current and future fiscal years are based on fiscal year 2005-06 releases of PPRF Revenues from the Senior Indenture and scheduled payments under the Agreements and Additional Pledged Loans and do not reflect any future Prepayments or delinquencies. The estimated annual coverage ratios are based in part on assumptions that may not be realized. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Trust Estate—Subordinate Lien PPRF Revenues," "—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" and "INVESTMENT CONSIDERATIONS" for a list of some factors affecting Subordinate Lien PPRF Revenues.

ANNUAL DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE RATIOS

Fiscal Year	Subordinate Lien PPRF Revenues[(1) (2)]	Agreement Revenues[(1) (3)]	Loan Repayments on Additional Pledged Loans[(1)]	Estimated Total Revenues[(1)]	Total Debt Service Requirements[(1) (4)]	Estimated Annual Coverage Ratios[(5)]
2008	$21,946,746	$25,450,283	$13,746,866	$61,143,895	$25,816,425	2.37x
2009	22,412,234	33,129,540	3,752,032	59,293,806	33,540,088	1.77
2010	23,505,123	31,818,274	3,420,164	58,743,561	32,212,013	1.82
2011	24,331,282	30,695,773	3,288,090	58,315,145	31,085,213	1.88
2012	22,621,975	31,490,321	3,278,766	57,391,062	31,864,926	1.80
2013	22,999,427	33,539,699	3,174,068	59,713,194	33,908,701	1.76
2014	22,733,481	33,259,740	3,120,472	59,113,692	33,614,588	1.76
2015	23,009,013	32,844,360	2,229,580	58,082,953	33,183,263	1.75
2016	21,642,961	32,805,032	4,461,799	58,909,792	33,124,675	1.78
2017	23,224,949	34,651,915	1,257,240	59,134,104	34,960,175	1.69
2018	22,705,054	36,330,446	1,010,249	60,045,749	36,623,388	1.64
2019	22,508,198	36,164,926	927,731	59,600,855	36,431,088	1.64
2020	22,993,223	31,061,648	850,686	54,905,557	31,314,744	1.75
2021	21,487,613	30,006,005	792,895	52,286,513	30,249,994	1.73
2022	22,631,739	27,169,300	733,430	50,534,470	27,405,494	1.84
2023	21,300,092	30,992,584	732,046	53,024,722	31,218,688	1.70
2024	21,223,364	27,475,661	829,679	49,528,703	27,682,638	1.79
2025	20,900,740	25,296,224	824,479	47,021,443	25,490,138	1.84
2026	20,656,777	9,490,423	707,404	30,854,604	9,664,200	3.19
2027	20,530,924	6,973,266	524,474	28,028,664	7,145,551	3.92
2028	20,428,205	3,364,520	476,582	24,269,307	3,406,150	7.13
2029	20,429,373	3,368,736	477,406	24,275,516	3,409,150	7.12
2030	20,421,526	3,378,488	478,263	24,278,277	3,411,150	7.12
2031	20,421,736	3,383,299	479,156	24,284,191	3,411,900	7.12
2032	20,410,870	3,388,175	480,086	24,279,131	3,412,338	7.12
2033	19,879,944	3,200,344	469,797	23,550,085	3,216,088	7.32
2034	19,872,246	3,208,888	470,806	23,551,941	3,217,150	7.32
2035	19,876,229	2,854,438	471,857	23,202,524	2,861,250	8.11
Total	$607,105,046	$606,792,308	$53,466,103	$1,267,363,457	$612,881,161	

(1) Amounts rounded to the nearest dollar.

(2) Future collections of the Subordinate Lien PPRF Revenues are based on a forecast of revenues to be released from the Senior Indenture. As shown, the figures do not reflect any possible future reduction for payment of debt service on Senior Bonds. For a history of Subordinate Lien PPRF Revenues, see the chart entitled "Historic Subordinate Lien PPRF Revenues" under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Trust Estate."

(3) Represents scheduled payments of Agreements and does not reflect the prepayment of any such Agreements that may occur while the Subordinate Bonds are outstanding.

(4) Amounts are preliminary based upon estimates of the debt service on the Series 2007C Bonds.

(5) The Estimated Annual Coverage Ratios are calculated assuming that no additional Parity Bonds will be issued pursuant to the Indenture and are subject to change.

(Source: NMFA and Western Financial Group LLC.)

NEW MEXICO FINANCE AUTHORITY

General

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 35 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

(a) 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;

(b) 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;

(c) to accept, administer, hold and use all funds made available to the NMFA from any sources;

(d) to borrow money and to issue bonds and provide for the rights of holders of the bonds;

(e) to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;

(f) to invest and reinvest its funds and to take and hold property as security for the investment of such funds;

(g) 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

(h) 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 who serve as the governing body of the NMFA. Seven of the members are ex officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the State. The seven ex officio members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of

Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the Governor and the appointed members serve four-year terms. Vacancies for the appointed members are filled by appointment of the Governor for the remainder of any unexpired term. Any appointed member is eligible for reappointment.

The governing body of the NMFA exercises and oversees the exercise of the powers of the NMFA. The governing body of the NMFA satisfies those responsibilities through monthly meetings and through the standing committees that the governing body has established. Those committees are advisory and have no authority to act on behalf of the governing body. Each committee reviews and makes recommendations to the governing body concerning matters assigned to it by the governing body.

The Executive Committee, which is chaired by the Chairman of the NMFA, Stephen R. Flance, provides oversight and direction relating to the operations of the NMFA. Other committees include the Audit Committee, chaired by Katherine B. Miller; the Finance/Loan Committee, chaired by Stephen R. Flance; the Economic Development Committee, chaired by Joanna Prukop; the Investment Committee, chaired by Craig Reeves; and the Contracts Committee, chaired by John Carey. The committees typically meet monthly.

The governing body has also established written policies concerning the exercise of the powers of the NMFA. The written policies serve as ongoing directions to staff and consultants with respect to standards to be applied in the conduct of the business of the NMFA.

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Governing Body and Key Staff Members

Current members of the NMFA, and their respective occupations and term expiration dates, are presented below:

Name	Occupation	Term Expires
Gary Bland(1)	State Investment Officer, State Investment Council	not applicable
John Carey(2)	Retired, Former President and CEO, Association of Commerce and Industry	01/01/08
Ron Curry(1)	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. Flance(2) (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	12/31/09
William Fulginiti(1) (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia(2)	President, Garcia Honda, Albuquerque, New Mexico	01/01/09
Paul Gutierrez(1)	Executive Director, New Mexico Association of Counties	not applicable
Katherine B. Miller(1)	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Fred Mondragon(1)	Secretary, Economic Development Department, State of New Mexico	not applicable
Joanna Prukop(1) (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Jennifer Taylor(2)	Vice President for Business, Finance and Human Resources, New Mexico State University	12/31/07
Craig Reeves(2) (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	12/31/07

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(1) *Ex officio* member. An *ex officio* member may designate an alternative member. Alternate members may attend meetings and vote on all matters considered by the NMFA.

(2) Appointed by the Governor of the State and serves at the pleasure of the Governor.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2007C Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development 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, New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

John T. Duff, Chief Operating Officer. Mr. Duff joined the NMFA as Chief Investment Officer in February 2006. Mr. Duff has more than 20 years experience in investment management, financial management, and public accounting. He has held positions as COO and CFO of publicly held corporations and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. As Acting Chief Operating Officer, Mr. Duff is responsible for administering the day-to-day operations of the NMFA. As Chief Investment Officer, Mr. Duff is responsible for management of the NMFA's investment portfolio. Mr. Duff has a Bachelor of Arts degree in economics from Oberlin College and a Master of Business Administration in accounting and finance from Miami University.

Joseph Gosline, Chief Financial Officer. Mr. Gosline joined the NMFA in October 2005. Mr. Gosline has 15 years of experience in financial management. He previously worked with the NMFA for 5 1/2 years, leaving to work for one year at a financial company that 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 Bachelor of Business Administration in accounting from the University of Miami, Florida and a Master of Business Administration in finance from the College of Santa Fe.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 17 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than $1 billion of transactions, ranging from $5,000 microloans to $175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for over $300 million in financings for the NMFA. Mr. Turner earned a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration from New Mexico State University.

Reynold E. Romero, General Counsel. Mr. Romero joined the NMFA in April 2007 as General Counsel. Prior to joining the NMFA, Mr. Romero served as General Counsel for the New Mexico Department of Transportation (NMDOT) for over three years and previously served as Deputy General Counsel and Assistant General Counsel for NMDOT. Mr. Romero has over 28 years of legal practice in transportation law, including eminent domain, property law, and procurement. Mr. Romero handled complex litigation and negotiated complex transactions for the NMDOT such as the purchase of the rail line from BNSF for the commuter rail project in New Mexico.

Scott W. Stovall, Chief Investment Officer. Mr. Stovall joined the NMFA in June, 2007. Mr. Stovall has 18 years of experience in public finance and investment management. Mr. Stovall has held positions as New Mexico Deputy State Treasurer, State Cash Manager, and New Mexico State Board of Finance Director. While at the State Treasurer's office, Mr. Stovall was responsible for the investment management of over $5 billion in general fund, local government and bond proceeds and was instrumental in starting the state's bond proceeds investment pool. Mr. Stovall also served a three year term as a member on the Government Finance Officers Association Governmental Debt Management Committee.

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.

Legislative Oversight

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, among other things: (i) meets on a regular basis to receive and review reports from the NMFA; (ii) monitors and provides assistance and advice on the public project financing program of the NMFA; (iii) oversees and monitors State and local government capital planning and financing; (iv) provides advice and assistance to the NMFA on planning, setting priorities for and financing of State and local capital projects; (v) undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and (vi) 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.

The Public Project Revolving Fund Program

General. The Act created the Public Project Revolving Fund (the "PPRF") Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of $1 million per project require specific authorization by the Legislature. As of March 31, 2007, the NMFA had made 595 PPRF loans totaling approximately $1,026,645,216. To implement the PPRF Program, the NMFA has been granted the following specific powers:

(a) to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;

(b) 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;

(c) 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;

(d) 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;

(e) 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;

(f) 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;

(g) 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;

(h) 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;

(i) 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

(j) 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 bond programs pursued pursuant to the Senior Lien Indenture and the Indenture are part of the PPRF Program.

Contingent Liquidity Account. In an effort to pursue its policy of maintaining a sufficient cash balance to meet the borrowing needs of eligible entities and improving the fund and cash balances of the Public Project Revolving Fund program, the NMFA established a contingency account (the "Contingent Liquidity Account") effective July 1, 2006. Although it will not be pledged to the Series 2007C Bonds, or any other NMFA bonds, the Contingent Liquidity Account is intended to enhance the NMFA's ability to meet the cash-flow needs of the PPRF program. Funds from the Contingent Liquidity Account may be used to pay debt service on NMFA bonds; however, such funds may also be used for other purposes, including but not limited to SWAP termination payments (to date the NMFA has not entered into any counterparty agreements related to the PPRF), loan originations, or to address other purposes as determined by the NMFA. The Contingent Liquidity Account is funded to an amount of $25,000,000. Upon approval of the NMFA, the Contingent Liquidity Account may receive annual increases thereafter of an amount approximately equal to 25% of the Governmental Gross Receipts Tax funds received by the NMFA at the end of the fiscal year. In future years, the NMFA plans to annually evaluate the level of the Contingent Liquidity Account to determine the amount, if any, of subsequent deposits.

Temporary Borrowing. The NMFA has recently entered into an arrangement with Bank of America, N.A. (the "Short-term Lender") for the Short-term Lender to provide to the NMFA an amount up to $100,000,000 to reimburse the NMFA for Loans made to eligible entities that are incurred prior to the issuance of a Series of Bonds. Once the amounts are advanced, the NMFA has up to 180 days to repay the advancement. The short-term borrowings are secured by proceeds of Bonds that are anticipated to be issued subsequent to the advances. The NMFA is entering into such an arrangement to assist it with its cash flows. Such short-term borrowings are not secured by the Trust Estate.

Other Programs and Projects

The NMFA also participates in or administers other programs designed to provide financing to local governmental entities and state agencies for public projects. Such programs are not secured by the Trust Estate but are secured by other sources of revenues. The following table sets forth the different types of programs and the amount of bonds outstanding under such programs.

Program	Project	Original Principal Amount	Amount Currently Outstanding	Scheduled Final Maturity
Worker's Compensation	Administrative Building	$4,310,000	$2,750,000	9/1/2016
Cigarette Tax	University of New Mexico Health Sciences Building	39,035,000	25,225,000	4/1/2019
Cigarette Tax	University of New Mexico Health Sciences Building	10,000,000	8,915,000	4/1/2019
Cigarette Tax	Behavioral Health Facilities	2,500,000	2,375,000	5/15/2026
Transportation	Highways	700,000,000	700,000,000	6/15/2024
Transportation	Highways	237,950,000	162,330,000	6/15/2024
Transportation	Highways	200,000,000	200,000,000	6/15/2026
Transportation	Highways	150,000,000	150,000,000	12/15/2026
Transportation	Highways	40,085,000	37,735,000	12/15/2026
Transportation	Highways	220,000,000	220,000,000	12/15/2026
Transportation	Highways	50,400,000	50,400,000	12/15/2026

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 2007C 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 2007C Bonds or in any way contesting or affecting the validity or enforceability of the Series 2007C Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA will deliver a non-litigation certification as to the foregoing prior to the issuance of the Series 2007C Bonds.

UNDERWRITING

The Underwriters have agreed to purchase the Series 2007C Bonds from the NMFA pursuant to a Bond Purchase Agreement dated August 23, 2007 (the "Bond Purchase Agreement"), at an aggregate price of $137,094,939.35 (being the aggregate principal amount of $131,860,000.00 plus a reoffering premium of $5,919,810.10 and less an Underwriters' discount of $684,870.75). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2007C 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 2007C 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

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2007C Bonds for interest thereon to be excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007C Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2007C Bonds. The NMFA and the Governmental Units have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2007C Bonds from gross income for Federal income tax purposes.

In the opinion of Brownstein Hyatt Farber Schreck, P.C., Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Series 2007C Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the Series 2007C Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, the interest on the Series 2007C Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. Interest on the Series 2007C Bonds owned by corporations will, however, be taken into account in determining the alternative minimum tax imposed by Section 55 of the Code on 75 percent of the excess of adjusted current earnings over alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction).

In rendering its opinion, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications, and compliance with certain covenants of the NMFA and the Governmental Units. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the NMFA and the Governmental Units. In addition, Bond Counsel has not been engaged, and will not undertake, to monitor the NMFA's and the Governmental Units' compliance with the covenants or to inform any person as to whether the covenants are being complied with; nor has Bond Counsel undertaken to determine or to inform any person as to whether any actions taken or not taken, or events occurring or not occurring, after the date of the issuance of the Series 2007C Bonds may affect the federal tax-exempt status of the interest on the Series 2007C Bonds.

Bond Counsel is also of the opinion that the difference between the principal amount of the Series 2007C Bonds (collectively, the "Premium Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest basis over the term of each Premium Bond. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Series 2007C Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2007C Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate tax payer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2007C Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax exempt obligations.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2007C Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2007C Bonds. Prospective purchasers of the Series 2007C Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series 2007C Bonds may affect the tax status of interest on the Series 2007C Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Series 2007C Bonds from gross income for Federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Series 2007C Bonds, or the interest thereon, if any action is taken with respect to the Series 2007C Bonds or the proceeds thereof upon the advice or approval of bond counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Series 2007C Bonds is excluded from gross income for Federal income tax purposes, a Series 2007C Bondholder's Federal, State or local tax liability may otherwise be affected by the ownership or disposition of the Series 2007C Bonds. The nature and extent of these other tax consequences will depend upon the Series 2007C Bondholder's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series 2007C Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2007C Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2007C Bonds, (iii) interest on the Series 2007C Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Series 2007C Bonds, may be subject to Federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Series 2007C Bonds. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Unless separately engaged, Bond Counsel is not obligated to defend the NMFA, the Governmental Units or the Series 2007C Bondholders regarding the tax-exempt status of the Series 2007C Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the NMFA, the Governmental Units and their respective appointed counsel, including the Series 2007C Bondholders, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of the IRS positions with which the NMFA or the Governmental Unites legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2007C Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2007C Bonds, and may cause the NMFA, the Governmental Units or the Series 2007C Bondholders to incur significant expense.

Bond Counsel is also of the opinion that interest on the Series 2007C Bonds is exempt from State of New Mexico personal income taxes as described herein.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX D—"FORM OF OPINION OF BOND COUNSEL."

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Series 2007C Bonds. Prospective purchasers or owners should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in New Mexico and other states.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2007C Bonds, Brownstein Hyatt Farber Schreck, P.C., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion in substantially the form included in APPENDIX D. Certain legal matters will 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 Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Disclosure Counsel to the NMFA. The General Counsel to the NMFA will deliver a non-litigation certification for 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 2007C 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, 2006, included in APPENDIX A of this Official Statement, have been audited by Meyners & Company, LLP, certified public accountants, Albuquerque, New Mexico, as set forth in their report thereon dated October 6, 2006. Meyners & Company, LLP has consented to the use of its name and audited financial reports of the NMFA in this Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

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 Rule 15c2-12 of the Securities and Exchange Commission (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 2007C 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 2007C 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. See "APPENDIX G—CONTINUING DISCLOSURE UNDERTAKING" herein.

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 2007C Bonds. See APPENDIX F for a discussion of Governmental Units with the largest outstanding principal loan balances.

RATINGS

Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aaa," "AAA" and "AAA," respectively, to the Series 2007C Bonds with the understanding that upon delivery of the Series 2007C Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2007C Bonds will be issued by MBIA Insurance Corporation. In addition, Moody's, S&P and Fitch have assigned underlying ratings (i.e., without regard to a municipal bond insurance policy) of "Aa3," "A+" and "AA,-" respectively, to the Series 2007C Bonds. An explanation of the significance of such ratings may be obtained from Moody's, S&P and Fitch.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2007C 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 2007C Bonds may have an adverse effect on the market price of the Series 2007C Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2007C Bonds any proposed revision or withdrawal of the ratings on the Series 2007C Bonds, or to oppose any such proposed revision or withdrawal.

INVESTMENT CONSIDERATIONS

Availability of Subordinate Lien Revenues

The amount of Subordinate Lien PPRF Revenues actually received by the NMFA on any June 1 may be affected by several factors. Among other things, 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 "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—The Governmental Gross Receipts Tax."

In addition, 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.

Pursuant to Section 7-9-4.3, NMSA 1978, revisions to laws of the State affecting, among other things, tax rates, taxed activities and distributions of Governmental Gross Receipts Taxes could be adopted in the future by the State legislature. There is no assurance that any future revisions to State laws will not adversely affect, among other things, tax rates, activities now subject to the governmental gross receipts tax or distribution of governmental gross receipts tax revenues to the NMFA. However, the State has pledged to and agreed with holders of any bonds or notes issued under the Act that the State will not limit or alter the rights vested by the Act in the NMFA to fulfill the terms of any agreements made with the holders thereof or in any way impair the rights and remedies of those holders until the bonds or notes together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of those holders, are fully met and discharged.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information in this Official Statement is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained in this Official Statement do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated as such, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2007C Bonds.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance, Chairman

By /s/ William C. Sisneros
William C. Sisneros,
Chief Executive Officer

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE NMFA
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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NEW MEXICO FINANCE AUTHORITY

Financial Statements for the Year Ended June 30, 2006, and Independent Auditors' Report

m+

MEYNERS +
COMPANY, LLC
Certified Public Accountants/
Consultants to Business

500 Marquette NW, Suite 800
Albuquerque, NM 87102
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INDEPENDENT AUDITORS' REPORT

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying basic 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, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's non-major governmental funds, presented as supplementary information in the accompanying combining fund financial statements, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2006, and the respective changes in the 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.

New Mexico Finance Authority
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Authority as of and for the year ended June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements and combining and individual fund financial statements of the Authority. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements, including the Schedule of Changes in Assets and Liabilities of Agency Funds. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

October 6, 2006

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

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

Financial Highlights

- The Authority's government-wide net assets increased by $4,528,247 in fiscal year 2006 from 2005.
- The Authority's program revenues increased by $1,059,947 in fiscal year 2006 from 2005.
- The total cost of all Authority programs was $70,163,037, a decrease of $26,772,168 over 2005.

Authority Highlights

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

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY2006, the PPRF program made approximately 72 loans totaling approximately $177.4 million, compared to 58 loans totaling approximately $187.6 million in FY2005.

In cooperation with the New Mexico Environment Department (NMED), the Authority administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY2006, the DWRLF made one loan totaling $6.56 million compared to five loans totaling $12.6 million in FY2005. The FY2006 binding commitments numbered four (4), approximating $14.2 million, compared to four totaling approximately $20.5 million, in FY2005.

Authority Highlights - continued

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2006, the Authority Board has approved 14 loans totaling $7.75 million.

During FY2006, the Authority issued $168.4 million in bonds to provide reimbursement to the Public Projects Revolving Loan Fund, refund certain PPRF bonds issued in prior years and provide funds for the Behavioral Health Capital Fund.

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 FY2006, 15 grants closed for a total of $4,182,000, compared to 30 grants totaling $11,457,000 in FY2005.

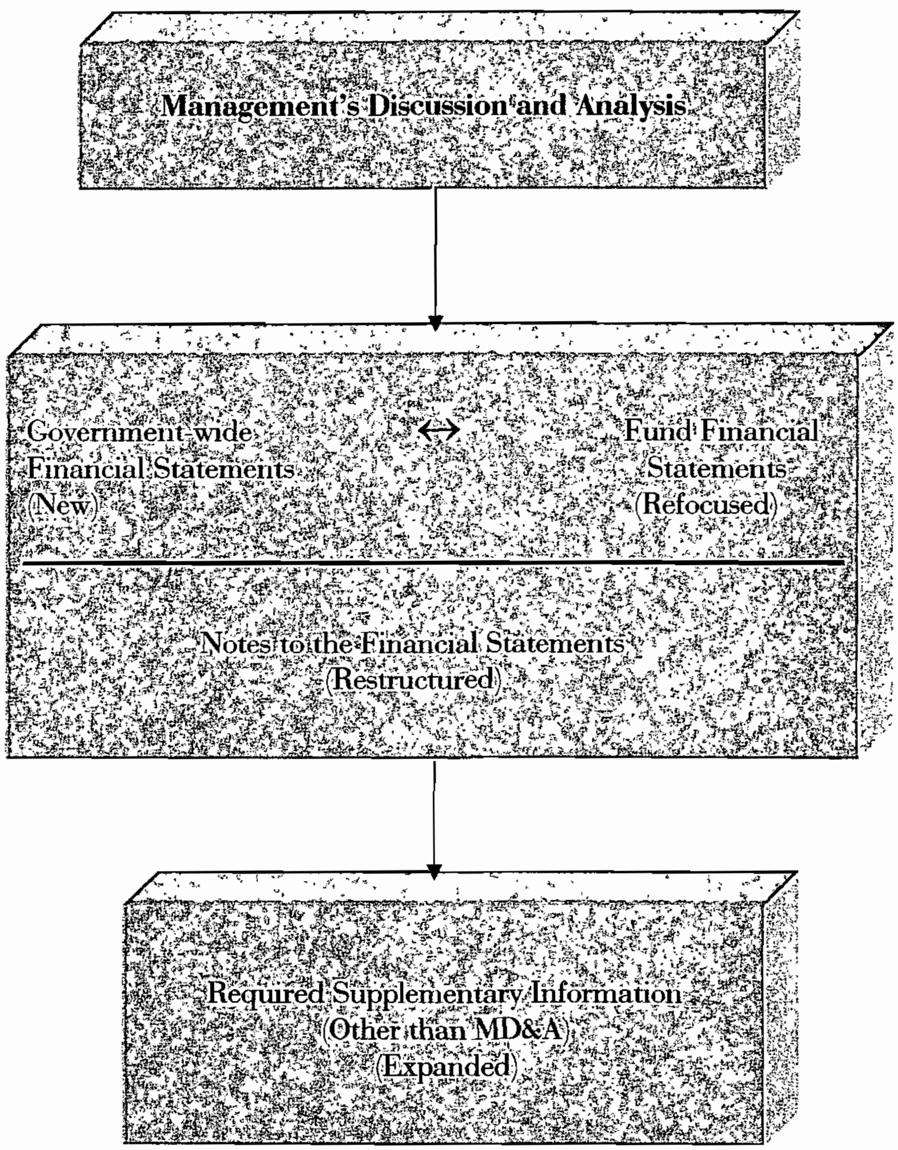
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation, and protection, fair distribution and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project Fund to provide the necessary financial framework, and created a 15-member Water Trust Board. The Water Trust Fund is created in the State Treasurer's office to be invested by the State Investment Officer in a manner similar to land grant permanent funds. Money in the Water Trust Fund may not be expended for any purpose, but an annual distribution is made to the Water Project Fund.

The Water Project Fund is created in the Authority, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The Authority is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated $22.5 million for identified regional projects, as well as an appropriation for future use to the Water Project Fund in FY2004. In FY2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY2005, funding comes from severance tax.

Using This Annual Report

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

Using This Annual Report - continued



Management's Discussion and Analysis

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

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

Government-Wide Financial Statements - continued

The government-wide financial statements of the Authority are divided into two categories:

- Governmental Activities - All of the Authority's stand-alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the Authority are the Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capital Improvement Financing and Equipment COP Financings and the Insurance Department Financings.

- Business-type Activities - The Authority's revolving fund programs and operating fund are included in the business-type activities. The funds included in the business-type activities are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, Behavioral Health Clinic Financing, the GRIP Administrative Fund and the General Operating Fund.

Fund Financial Statements

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

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

Fund Financial Statements - continued

Governmental Fund Types:

Most of the Authority's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

- Special Revenue Funds - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.

- Debt Service Funds - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

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

Notes to the Financial Statements

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

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis Of The Authority As A Whole

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ending June 30, 2006. FY2006 net assets for Governmental Activities and Business-type Activities were ($73,470,696) and $179,882,110, respectively. Total Authority net assets for fiscal year 2006 are $106,411,414. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The Authority's Net Assets

		Governmental Activities		Business-Type Activities		Total	
		2006	2005	2006	2005	2006	2005
Current and other assets	$	53,624,471	75,171,015	32,697,069	248,080,457	86,321,540	323,251,472
Capital and non-current assets		3,608,898	4,047,008	862,702,716	476,415,138	866,311,614	480,462,146
Total assets	$	57,233,369	79,218,023	895,399,785	724,495,595	952,633,154	803,713,618
Current liabilities	$	11,947,088	5,267,723	143,670,717	101,828,939	155,617,805	107,096,662
Long-term liabilities		118,756,977	134,928,465	571,846,958	459,805,324	690,603,935	594,733,789
Total liabilities		130,704,065	140,196,188	715,517,675	561,634,263	846,221,740	701,830,451
Net Assets:							
Invested in capital assets		232,249	118,808	360,882	140,719	593,131	259,527
Restricted		(73,702,945)	(61,096,973)	176,161,533	159,955,266	102,458,588	98,858,293
Unrestricted		-	-	3,359,695	2,354,989	3,359,695	2,354,989
Total net assets		(73,470,696)	(60,978,165)	179,882,110	162,861,332	106,411,414	101,883,167
Total liabilities and net assets	$	57,233,369	79,218,023	895,399,785	724,495,595	952,633,154	803,713,618

Changes in Net Assets: The Authority's change in net assets for fiscal year 2006 was an increase of $4,528,247 (Table A-2). A significant portion, twenty-five percent (25%), of the Authority's revenue comes from Tax Revenue. Six percent (6%) comes from other operating grants and contributions, and thirteen percent (13%) from interest and investment income. Twenty-six percent (26%) comes from state general fund appropriations, and charges for services and other revenue comprise thirty percent (30%) of total revenue.

Table A-2
Changes in the Department's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program	845,680	1,143,328	24,051,276	22,779,749	24,983,024	23,923,077
General	21,676,344	28,942,690	28,031,916	23,119,623	49,708,260	52,062,313
Total revenues	22,522,024	30,086,018	52,083,192	45,899,372	74,691,284	75,985,390
Expenses	35,036,050	72,279,123	35,040,919	24,656,082	70,163,037	96,935,205
Net revenues (loss) before transfers and reversions	(12,514,026)	(42,193,105)	17,042,273	21,243,290	4,528,247	(20,949,815)
Transfers and reversions	21,495	1,588,800	(21,495)	(1,588,800)	-	-
(Decrease) increase in net assets	(12,492,531)	(40,604,305)	17,020,778	19,654,490	4,528,247	(20,949,815)
Net assets, beginning of year	(60,978,165)	(20,373,860)	162,861,332	143,206,842	101,883,167	122,832,982
Net assets, end of year	$ (73,470,696)	(60,978,165)	179,882,110	162,861,332	106,411,414	101,883,167

The decline in governmental net assets is the result of certain grant funds (water wastewater grant fund, emergency drought relief, water project fund) "winding down". There are no additional funds being appropriated to these programs and, as grant recipients draw down funds on their grants, there is an on-going decline in the assets (cash). Business-type (enterprise) activities continue to grow in terms of net assets because of the expansion of the PPRF program and the continual growth in the loan portfolio.

The overall decline in the expenses of the Authority is directly related to the decreasing activity in the funds mentioned above.

Governmental-Type Activities

The Authority's total expenditures for governmental-type activities during the fiscal year 2006 were $35,036,050. The highest area of expenditures, $15,335,743, forty four percent (44%), was in the area of Debt Service.

The second highest area of expenditures within the Authority is in the category of Grant Expenses:

Business Type Activities

The Authority's total expenditures for business-type activities during the fiscal year were $35,126,987. The majority of business-type expenditures, $24,036,583, sixty eight percent (68%), was in the area of Debt

Business Type Activities - continued

Service. Within the operating cost category, salaries and benefits comprised six percent (6%) of total expenditures, and all other operating costs such as professional services, repairs and maintenance, travel, supplies, etc., were twenty percent (20%) of total expenditures.

Capital Assets and Debt Administration

At the end of fiscal year 2006, the Authority had invested a total of $360,882 net of depreciation in business-type activities and $232,249 in capital assets for government-type activities. During FY2006, capital outlay expenditures totaled $453,360. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 7 to the financial statements.

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

Long-Term Debt

The Authority's long-term debt is all outstanding bond issues related to the various programs administered by the Authority. At the end of fiscal year 2006, the total amount outstanding was $700.9 million (excluding the $1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority). More detailed information about the Authority's long-term debt is presented in Note 8 to the financial statements.

During the fiscal year, the Authority issued $168.4 million in PPRF debt, primarily to directly fund loans, reimburse the PPRF loan fund for loans already made or to advance refund certain PPRF bond issues.

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	Aa2
Standard & Poor's	AA
Fitch	AA

The Authority received bond ratings increases from both Moody's and Standard and Poor's during FY2006.

Economic Factors and Next Year's Budgets and Rates

The FY2006 budget accommodates the Authority's administration of eight programs paid from different sources of revenue:

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

The Authority's primary operating budget for FY2006 was $6,179,829, compared to the FY2005 budget of $4,515,518, a 37% increase. This was due to the addition of new programs, increased staffing levels, the addition of office space and major upgrades in both computer hardware and software.

Contacting the Authority's Financial Management

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

New Mexico Finance Authority (NMFA)
207 Shelby Street
Santa Fe, New Mexico 87505

FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and equivalents:			
Unrestricted	$ 28,236,889	15,987,199	44,224,088
Restricted	23,117,927	208,621,775	231,739,702
Receivables:			
Tax revenue	2,097,341	6,101,447	8,198,788
Interest	9,535	4,132,123	4,141,658
Grant and other	779	4,003,663	4,004,442
Due from other state agencies	-	72,917	72,917
Due from other funds (Note 5) [Internal Balances]	-	2,031,406	2,031,406
Administrative fees receivable	-	368,314	368,314
Loans receivable, net of allowance (Note 3)	669,000	574,115,317	574,784,317
Securities (Note 4)	-	11,705,377	11,705,377
Restricted asset - escrow	-	60,166,010	60,166,010
Capital Assets, net of depreciation	232,249	360,882	593,131
Deferred costs, net	2,869,649	7,716,745	10,586,394
Other assets	-	16,610	16,610
TOTAL ASSETS	57,233,369	895,399,785	952,633,154
LIABILITIES:			
Accounts payable and accrued liabilities	155,569	1,347,781	1,503,350
Accrued payroll, fringe benefits and compensated absences (Note 11)	9,426	238,674	248,100
Accrued interest	707,547	1,944,197	2,651,744
Debt service payable	111,140	34,302,486	34,413,626
Notes payable	2,000,000	-	2,000,000
Funds held for others	-	69,040,959	69,040,959
Due to other state agencies (Note 5)	-	681,620	681,620
Due to other funds [Internal Balances]	2,031,406	-	2,031,406
Deferred revenue	-	3,260,000	3,260,000
Bonds payable, current, net (Note 8)	6,932,000	32,855,000	39,787,000
Bonds payable, noncurrent, net of bond discount/premium (Note 8)	118,756,977	571,846,958	690,603,935
TOTAL LIABILITIES	130,704,065	715,517,675	846,221,740
NET ASSETS:			
Invested in capital assets	232,249	360,882	593,131
Restricted for:			
Debt service	(109,626,690)	-	(109,626,690)
Program funds	35,923,745	176,161,533	212,085,278
Unrestricted	-	3,359,695	3,359,695
TOTAL NET ASSETS	(73,470,696)	179,882,110	106,411,414
TOTAL LIABILITIES AND NET ASSETS	$ 57,233,369	895,399,785	952,633,154

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
EXPENSES:			
Capital financing	$ 35,036,050	35,040,919	70,076,969
PROGRAM REVENUES:			
Charges for services	-	20,680,142	20,680,142
Operating grants and contributions	845,680	3,371,134	4,216,814
NET PROGRAM EXPENSES	(34,190,370)	(10,989,643)	(45,180,013)
GENERAL REVENUES:			
Governmental gross receipts and gross receipts taxes	-	18,656,645	18,656,645
Investment earnings	2,109,460	7,375,271	9,484,731
State General Fund Appropriations	19,566,884	-	19,566,884
Other revenue	-	2,000,000	2,000,000
TOTAL GENERAL REVENUES	21,676,344	28,031,916	49,708,260
TRANSFERS	21,495	(21,495)	-
CHANGE IN NET ASSETS	(12,492,531)	17,020,778	4,528,247
NET ASSETS, BEGINNING OF FISCAL YEAR	(60,978,165)	162,861,332	101,883,167
NET ASSETS, END OF FISCAL YEAR	$ (73,470,696)	179,882,110	106,411,414

AS OF JUNE 30, 2006

	Major Funds							
	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:								
Unrestricted:								
Cash and cash equivalents	$ -	4,277,573	6,102,620	44,062	5,421,506	10,079,274	2,311,854	28,236,889
Receivables:								
Tax receivable	-	540,641	500,000	699,509	-	-	357,191	2,097,341
Interest	-	-	-	-	-	-	9,535	9,535
Other receivables	-	-	-	-	-	-	779	779
Loans receivable	-	-	-	-	-	-	669,000	669,000
	-	4,818,214	6,602,620	743,571	5,421,506	10,079,274	3,348,359	31,013,544
Restricted:								
Cash and cash equivalents held for others by trustee:								
Debt service	-	-	-	-	-	-	620,035	620,035
Bond reserve	-	698,852	2,774,721	1,516,890	-	-	-	4,990,463
Investments	-	-	-	-	6,002,547	11,504,882	-	17,507,429
TOTAL ASSETS	$ -	5,517,066	9,377,341	2,260,461	11,424,053	21,584,156	3,968,394	54,131,4[illegible]
LIABILITIES:								
Accounts payable	$ -	-	-	-	5,381	58,501	101,113	164,995
Debt service payable	111,140	-	-	-	-	-	-	111,140
Notes payable	-	2,000,000	-	-	-	-	-	2,000,000
Due to other funds	1,275,483	-	-	-	18,157	10,001	727,765	2,031,406
TOTAL LIABILITIES	1,386,623	2,000,000	-	-	23,538	68,502	828,878	4,307,541
FUND BALANCES:								
Reserve for debt service	(1,386,623)	-	9,377,341	2,260,461	-	-	2,439,654	12,690,833
Unreserved:								
Special revenue funds	-	3,517,066	-	-	11,400,515	21,515,654	699,862	37,133,097
TOTAL FUND BALANCES	(1,386,623)	3,517,066	9,377,341	2,260,461	11,400,515	21,515,654	3,139,516	49,823,930
TOTAL LIABILITIES AND FUND BALANCES	$ -	5,517,066	9,377,341	2,260,461	11,424,053	21,584,156	3,968,394	54,131,471

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	49,823,930
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
The cost of capital assets is		309,895
Accumulated depreciation is		(77,646)
Total capital assets, net of depreciation		232,249
Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds, amortized over the life of the respective bond. Deferred costs, net, are		2,869,649
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term and other liabilities at year end consist of:		
Bonds payable, net of premium of $2,169,977		(125,688,977)
Accrued interest payable		(707,547)
Total long-term and other liabilities		(126,396,524)
Net assets of governmental activities (Statement of Net Assets)	$	(73,470,696)

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	$ -	-	-	-	845,680	-	-	845,680
Interest on loans	-	-	-	-	-	-	52,765	52,765
Interest on investments	14,822	163,870	433,423	102,344	428,470	794,062	119,706	2,056,697
TOTAL REVENUES	14,822	163,870	433,423	102,344	1,274,150	794,062	172,471	2,955,142
EXPENDITURES:								
Current:								
Administrative fee	-	-	45,255	154,778	-	-	17,169	217,202
Professional services	-	10,338	1,122	48,158	45,257	184,588	235,019	524,482
Salaries and fringe benefits	-	-	-	-	108,263	69,121	123,413	300,797
In-state travel	-	-	-	-	4,706	2,852	11,759	19,317
Out-of-state travel	-	-	-	-	545	564	4,950	6,059
Maintenance and repairs	-	-	-	-	1,437	1,000	1,831	4,268
Operating costs	-	-	-	-	29,791	21,670	48,050	99,511
Grant expenses	-	-	-	-	5,577,998	8,284,822	171,054	14,033,874
Capital outlay	-	-	-	-	45,130	38,480	78,408	162,018
Debt service - principal	175,000	600,000	1,320,000	5,690,000	-	-	1,286,000	9,071,000
Debt service - interest	3,044,015	31,500	1,167,707	1,234,888	-	-	786,633	6,264,743
TOTAL EXPENDITURES	3,219,015	641,838	2,534,084	7,127,824	5,813,127	8,603,097	2,764,286	30,703,271
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,204,193)	(477,968)	(2,100,661)	(7,025,480)	(4,538,977)	(7,809,035)	(2,591,815)	(27,748,129)
OTHER FINANCING SOURCES (USES):								
State General Fund appropriations	-	1,538,727	6,000,000	9,767,447	-	-	2,260,710	19,566,884
Transfers (to) from other funds	(802,800)	(261,265)	-	1,085,000	(16,558)	(1,945)	19,063	21,495
Transfers (to) other state agencies	-	(94,150)	(9,797,728)	(2,897,518)	-	-	(784,264)	(13,573,660)
NET OTHER FINANCING SOURCES (USES)	(802,800)	1,183,312	(3,797,728)	7,954,929	(16,558)	(1,945)	1,495,509	6,014,719
NET CHANGE IN FUND BALANCES	(4,006,993)	705,344	(5,898,389)	929,449	(4,555,535)	(7,810,980)	(1,096,306)	(21,733,410)
FUND BALANCES, June 30, 2005	2,620,370	2,811,722	15,275,730	1,331,012	15,956,050	29,326,634	4,235,822	71,557,340
FUND BALANCES, June 30, 2006	$ (1,386,623)	3,517,066	9,377,341	2,260,461	11,400,515	21,515,654	3,139,516	49,823,930

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$ (21,733,410)
Amounts reported for governmental activities in the Statement of Activities are different because:	
In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease in the liabilities for the fiscal year was:	
Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities, these payments are reported as a reduction of the liability. In the current period, these principal payment amounts were	9,246,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was	50,310

YEAR ENDED JUNE 30, 2006

Change from prior year in amortization of bond issuance costs:		
Deferred issuance costs FY05 (p. 17 PY)	$ 3,032,008	
Deferred issuance costs FY06 (p. 17 CY)	2,869,649	
		$ (162,359)
Change from prior year in amorization of bond premium/discount:		
Amortization of bond premium/discount FY05 (p. 62 PY)	2,163,465	
Amortization of bond premium/discount FY06 (p. 64 CY)	2,169,977	
		(6,512)
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:		
Capital outlay		162,018
Depreciation expense		(48,578)
Excess of capital outlay over depreciation expense		113,440
Change in net assets of governmental activities (Statement of Activities)		$ (12,492,531)

AS OF JUNE 30, 2006

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	Total
ASSETS:										
Current:										
Cash and cash equivalents	$ 229,446	2,849,858	10,096,279	1,850,289	-	78,701	-	882,626		15,987,199
Receivables:										-
Tax revenue	-	6,080,078	3,460	-	17,909	-	-	-	-	6,101,447
Interest	-	4,038,897	93,226	-	-	-	-	-	-	4,132,123
Grant and other	166,751	51,436	3,785,476	-	-	-	-	-	-	4,003,663
Due from other state agencies	-	-	-	72,917	-	-	-	-	-	72,917
Due from other funds	970,999	1,275,483	-	-	-	-	-		-	2,246,482
Administrative fees receivable	357,314	-	11,000	-	-	-	-	-	-	368,314
Total current assets	1,724,510	14,295,752	13,989,441	1,923,206	17,909	78,701	-	882,626	-	32,912,145
Loans receivable, net of allowance	-	551,812,951	17,329,581		4,541,415	431,370	-	-	-	574,115,317
Securities	-	11,705,377	-	-		-	-	-	-	11,705,377
Restricted assets - cash and cash equivalents	-	196,799,266	5,879,803	-	2,893,651	11,102	252,557	-	2,785,396	208,621,775
Escrow	-	60,166,010		-	-	-	-	-	-	60,166,010
Depreciable property and equipment, net	121,412	114,566	43,520	81,384	-	-	-	-	-	360,882
Deferred charges		7,663,195	-	-	-	53,550	-	-		7,716,745
Other assets	16,610	-	-	-	-	-	-	-	-	16,610
TOTAL ASSETS	$ 1,862,532	842,557,117	37,242,345	2,004,590	7,452,975	574,723	252,557	882,626	2,785,396	895,614,861
LIABILITIES:										
Accounts payable and other liabilities	$ 41,868	1,076,852	167,415	6,286	1,188	53,715	457		-	1,347,781
Accrued payroll, fringe benefits										
and compensated absences	204,235	22,737	4,872	6,830	-	-	-		-	23[illegible]
Accrued interest payable	-	1,921,238	-	-	-	-	-	-	22,959	1,94[illegible]
Debt service payable		34,103,265	156,403	-	34,870	7,948	-	-	-	34,302,486
Funds held for others	-	67,165,260	1,607,750	-	17,949	-	250,000	-	-	69,040,959
Due to other state agencies	4,294	-	677,326	-	-	-	-	-	-	681,620
Due to other funds	-	101,415	23,472	41,118	-	289	48,756	26	-	215,076
Deferred revenue	-	3,260,000	-	-	-	-	-	-	-	3,260,000
Bonds payable, current, net	-	32,730,000	-	-	-	-	-	-	125,000	32,855,000
Bonds payable, noncurrent, net	-	569,471,958	-	-	-	-	-	-	2,375,000	571,846,958
TOTAL LIABILITIES	250,397	709,852,725	2,637,238	54,234	54,007	61,952	299,213	26	2,522,959	715,732,751
NET ASSETS:										
Invested in capital assets, net of related debt	121,412	114,566	43,520	81,384	-	-	-	-	-	360,882
Restricted for:										
Program funds	-	132,589,826	34,561,587	-	7,398,968	512,771	(46,656)	882,600	262,437	176,161,533
Unrestricted	1,490,723	-	-	1,868,972	-	-	-	-	-	3,359,695
TOTAL NET ASSETS	1,612,135	132,704,392	34,605,107	1,950,356	7,398,968	512,771	(46,656)	882,600	262,437	179,882,110
TOTAL LIABILITIES AND NET ASSETS	$ 1,862,532	842,557,117	37,242,345	2,004,590	7,452,975	574,723	252,557	882,626	2,785,396	895,614,861

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

		Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	Total
INTEREST EARNINGS:											
Interest on loans	$	-	16,651,654	575,035	-	-	12,674	-		-	17,239,363
Interest on investments		63,420	6,509,778	505,658	51,004	200,478	3,322	2,557	8,505	30,549	7,375,271
TOTAL INTEREST EARNINGS		63,420	23,161,432	1,080,693	51,004	200,478	15,996	2,557	8,505	30,549	24,614,634
INTEREST EXPENSE:											
Debt service - interest expense		-	23,989,518	-	-	-	-	-	-	47,065	24,036,583
NET INTEREST EARNINGS		63,420	(828,086)	1,080,693	51,004	200,478	15,996	2,557	8,505	(16,516)	578,051
NON-INTEREST EARNINGS:											
Tax revenue		-	18,656,645	-	-		-		-	-	18,656,645
Federal grant revenue			-	3,371,134	-	-	-	-		-	3,371,134
Administrative fees		1,648,679	-	40,948	1,750,000	-	1,152	-	-	-	3,440,779
TOTAL NON-INTEREST EARNINGS		1,648,679	18,656,645	3,412,082	1,750,000	-	1,152	-		-	25,468,558
NON-INTEREST EXPENSE:											
Grant expense			533,548	-	-		-		-		533,548
Bond issuance costs			552,302	-	-	-		-		-	552,302
Administrative fees		-	141,695	-			-		-	-	141,695
Professional services		421,675	2,104,587	238,747	251,931	383,474	8,849	33,488	879	136	3,443,766
Salaries and fringe benefits		1,069,463	700,489	152,735	188,595	-		-		-	2,111,282
In-state travel		10,636	22,390	3,650	7,274	-	3	1,081	26	-	45,060
Out of state travel		11,471	11,176	2,977	3,977		-	51	-	-	29,652
Maintenance and repairs		5,652	7,509	5,081	2,370	-	172	314	-		21[illegible]
Supplies		27,676	30	5,669	6,924	-	133	4,916	-	-	4[illegible]
Operating costs		167,213	155,137	89,889	39,185		345	1,084	-	-	45[illegible]
Depreciation		25,279	18,491	12,355	15,052	-	-	-	-	-	71,177
TOTAL NON-INTEREST EXPENSE		1,739,065	4,247,354	511,103	515,308	383,474	9,502	40,934	905	136	7,447,781
NON-OPERATING REVENUES (EXPENSES):											
Miscellaneous revenue		-	-	2,000,000	-	-	-	-	-	-	2,000,000
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS		(26,966)	13,581,205	5,981,672	1,285,696	(182,996)	7,646	(38,377)	7,600	(16,652)	20,598,828
TRANSFERS:											
Transfers in (out)		746,524	(1,012,705)	(18,064)	(875,000)	-	(16,339)	-	875,000	279,089	(21,495)
Transfers from (to) other state agencies		-	(696,524)	(2,860,031)	-	-	-	-	-	-	(3,556,555)
TOTAL TRANSFERS		746,524	(1,709,229)	(2,878,095)	(875,000)	-	(16,339)		875,000	279,089	(3,578,050)
CHANGE IN NET ASSETS		719,558	11,871,976	3,103,577	410,696	(182,996)	(8,693)	(38,377)	882,600	262,437	17,020,778
TOTAL NET ASSETS, June 30, 2005		892,577	120,832,416	31,501,530	1,539,660	7,581,964	521,464	(8,279)	-	-	162,861,332
TOTAL NET ASSETS, June 30, 2006	$	1,612,135	132,704,392	34,605,107	1,950,356	7,398,968	512,771	(46,656)	882,600	262,437	179,882,110

See Notes to Financial Statements.

YEAR ENDED JUNE 30, 2006

		Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Local Road Fund	Cigarette Tax Revenue Bond	Total
CASH FLOWS FROM OPERATING ACTIVITIES:											
Cash paid for employee services	$	(1,069,463)	(700,489)	(152,735)	(188,595)	-	-	-	-	-	(2,111,282)
Cash paid to vendors for services		(591,003)	(380,813)	(258,652)	(291,629)	(382,285)	(9,022)	-	(879)	(136)	(1,914,419)
Bond issuance costs		-	(552,302)	-	-	-	-	-	-	-	(552,302)
Interest expense paid		-	(22,068,279)	-		-	-	-	-	(24,106)	(22,092,385)
Grants awarded		-	(533,548)	4,145,259	-	-	-	-	-	-	3,611,711
Tax revenue		-	17,290,673	-	-	-	-	-	-	-	17,290,673
Interest income received		63,420	23,161,432	1,080,693	51,004	200,478	15,996	2,557	8,505	30,549	24,614,634
Administrative fees received		1,076,269	-	40,948	1,750,000	5,194	1,152	-	-	-	2,873,563
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		(520,777)	16,216,674	4,855,513	1,320,780	(176,613)	8,126	2,557	7,626	6,307	21,720,193
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES:											
Operating transfers, net		746,524	(1,012,705)	(18,064)	(875,000)		(16,339)	-	875,000	279,089	(21,495)
Cash paid to subrecipients for services			(696,524)	(2,860,031)	-		-	-	-	-	(3,556,555)
Cash provided (used) by funds held for others		-	8,868,060	174,246	-	(3,553)	-	250,000	-	-	9,288,753
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES		746,524	7,158,831	(2,703,849)	(875,000)	(3,553)	(16,339)	250,000	875,000	279,089	5,710,703
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:											
Securities		-	1,056,286	-	-	-	-	-	-	-	1,056,286
Escrow			(12,621,900)	-	-	-		-	-	-	(12,621,900)
Loans funded			(153,628,075)	(1,550,114)	-	-	-	-		-	(155,178,189)
Loan payments received			37,546,043	1,033,066	-	811,822	29,495	-	-	-	39,420,426
Bonds issued			168,400,000	-	-	-	-	-	-	2,500,000	170,900,000
Payment of bonds		-	(27,569,347)	-	-	-	-	-	-	-	(27,569,347)
Debt service		-	(2,866,969)	(1,260,753)	-	(4,482)	-	-	-	-	(4,13[illegible]04)
Capital asset purchases		(103,035)	(96,926)	(28,536)	(62,844)	-	-	-	-	-	(29[illegible]1)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		(103,035)	10,219,112	(1,806,337)	(62,844)	807,340	29,495	-	-	2,500,000	11,583,731
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		122,712	33,594,617	345,327	382,936	627,174	21,282	252,557	882,626	2,785,396	39,014,627
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2005		106,734	166,054,507	15,630,755	1,467,353	2,266,477	68,521	-	-	-	185,594,347
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS, June 30, 2006	$	229,446	199,649,124	15,976,082	1,850,289	2,893,651	89,803	252,557	882,626	2,785,396	224,608,974
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME:		719,558	11,871,976	3,103,577	410,696	(182,996)	(8,693)	(38,377)	882,600	262,437	17,020,778
Adjustments to operating income:											
Depreciation and amortization		25,279	18,491	12,355	15,052	-	-	-	-	-	71,177
Net transfers		(746,524)	1,709,229	2,878,095	875,000	-	16,339	-	(875,000)	(279,089)	3,578,050
(Increase) decrease in prepaids and receivables		(572,410)	(1,365,972)	(1,225,875)	-	5,194	480	-	-	-	(3,158,583)
Increase in payables and other accrued liabilities		53,320	3,982,950	87,361	20,032	1,189	-	40,934	26	22,959	4,208,771
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$	(520,777)	16,216,674	4,855,513	1,320,780	(176,613)	8,126	2,557	7,626	6,307	21,720,193

AS OF JUNE 30, 2006

		Agency Funds
ASSETS:		
Cash at Trustee:		
Program funds	$	364,453,433
Expense funds		2,463,987
Bond reserve funds		41,318,641
TOTAL ASSETS	$	408,236,061
LIABILITIES:		
Accounts payable	$	1,388,387
Debt service payable		42,887,424
Funds held for the New Mexico Department of Transportation		363,960,250
TOTAL LIABILITIES	$	408,236,061

See Notes to Financial Statements.

NATURE OF ORGANIZATION

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

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

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the New Mexico Finance Authority Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

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

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

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

NATURE OF ORGANIZATION - continued

The financial reporting entity as defined by GASB No. 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, considered to be a discretely presented component unit of the State of New Mexico. The Authority does not have any component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The Authority has implemented the provisions of GASB No. 34. As a part of this statement, there is a reporting requirement regarding the local government's infrastructure (roads, bridges, etc.) The Authority does not own any infrastructure assets and, therefore, is unaffected by this requirement.

♦ *Basic Financial Statements*

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Government-wide and Fund Financial Statements*

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these statements. ***Governmental activities***, which normally are supported by taxes and intergovernmental revenues, are reported separately from ***business-type activities***, which rely to a significant extent on fees and charges for support. Likewise, the ***primary government*** is reported separately from certain legally separate ***component units*** for which the primary government is financially accountable.

The government-wide statement of activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Authority includes only one function (infrastructure financing). Inter-fund balances have been eliminated in the government-wide financial statements within government funds and enterprise funds. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipt taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized when the underlying transaction has occurred. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. ***Direct expenses*** are those that are clearly identifiable with a specific function or segment. ***Program revenues*** include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as ***general revenues.***

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual enterprise funds are reported as separate columns in the fund financial statements.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Government-wide and Fund Financial Statements - continued*

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

The Government-wide financial statements are prepared using the economic resources measurement focus and the accrued basis of accounting. The fund financial statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

♦ *Basis of Presentation - Fund Accounting*

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

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined.

The following fund types and account groups are used by the Authority:

> ***Governmental Fund Types*** - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. All government funds are non-reverting.

The Authority reports the following major governmental funds:

- Metro Court Financing Fund
- State Building Program Cigarette Tax Fund
- State Office Building Financing Fund
- UNM Health Sciences Fund
- Water Project Fund
- Water and Wastewater Project Grant Fund

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

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

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.

<u>Special Revenue Fund - Water and Wastewater Project Grant Fund</u>. This grant fund is to use the net proceeds of the sale of bonds, pursuant to the provisions of Section 6-21-6.1, NMSA, 1978 Compilation, for the purposes of water and wastewater projects and payable from the public project revolving fund. Money in the water and wastewater project grant fund is appropriated to the Authority to make grants to qualified entities for water and wastewater public projects pursuant to special authorization by law for each project, and to pay administrative costs of the water and wastewater project grant program. Any unexpended or unencumbered balances remaining at the end of the fiscal year shall not revert to the State's general fund.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Basis of Presentation - Fund Accounting - continued*

Special Revenue Funds - continued

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

Special Revenue Fund - Economic Development. This fund was created with the passage of Senate Bill 932 - Statewide Economic Development Finance Act (SWEDFA) during the 2003 legislative session. The purpose of this fund is to provide a comprehensive package of financing tools to stimulate economic development projects and fill the gap between public and private financing.

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

Debt Service Fund - Metro Court Financing Fund. The Laws of 1998, Chapter 6, authorized the Authority to issue revenue bonds for the construction of a new Bernalillo County Metropolitan Court facility. The bonds were issued on August 1, 2001. The pledged revenues for the project consist of a portion of the docketing fees and costs collected by various courts of the state, and a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the motor vehicle code involving the operation of a motor vehicle. There was an additional bond issuance in September 2002 (2002A).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Basis of Presentation - Fund Accounting - continued

Debt Service Funds - continued

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

Debt Service Fund - Equipment Loan Fund. The Authority has established an equipment loan program under the Authority's legislation to assist local government entities in the financing and purchase of equipment. The Authority has issued the following Pooled Equipment Certificates of Participation. In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were loaned to ten local governments in the state. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A, the proceeds of which were loaned to 18 governmental entities in the state. On August 29, 1995, the Authority issued $2,904,000 aggregate principal amount of its Equipment Program Certificates of Participation, Series 1995B, the net proceeds of which were loaned to the City of Las Cruces. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996B, the net proceeds of which were loaned to various governmental entities in the state. The loans are assigned to a trustee by the Authority and the only sources of repayment are various sources of local government revenues secured by intercept agreements and paid to the trustee. These certificates are not an obligation of the Authority. The funds are maintained by the trustees and are held in the Authority's and the local entity's names.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Basis of Presentation - Fund Accounting - continued*

Debt Service Funds - continued

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

Debt Service Fund - UNM Health Sciences. Chapters 341, Laws of New Mexico 2003 (the Authorizing Act) authorized the State of New Mexico to distribute amounts equal to 1) 14.52% of the net receipts of a cigarette excise tax to the Authority on behalf and for the benefit of the University of New Mexico Health Sciences Center, and 2) 15.95% of the net Cigarette Tax receipts collected each month for bond credit enhancement purposes. The Authorizing Act also permitted the Authority to issue Cigarette Tax revenue bonds in an amount not to exceed $60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ *Basis of Presentation - Fund Accounting - continued*

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

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

<u>Enterprise Fund - Operating Fund</u>. The operating fund of the Authority accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

<u>Enterprise Fund - Public Projects Revolving Fund</u>. This fund is used to account for governmental gross receipts tax (GGRT) proceeds received under the Laws of 1994, Chapter 145, Section 1. The Authority receives an amount equal to 75% of the net receipts attributable to GGRT pursuant to Section 7-1-6.1, NMSA 1978. Of the GGRT revenues directed to the Authority's Public Project Revolving Fund which are not used to pay debt service on PPRF obligations, an aggregate amount not to exceed 35% shall be available for appropriation by the Legislature to the following funds for local infrastructure financing: the water and wastewater project grant fund, the wastewater facility construction loan fund, the rural infrastructure revolving loan fund, the solid waste facility grant fund and the drinking water state revolving loan fund. The remaining GGRT revenue deposited may be granted or loaned directly by the Authority to qualified entities, or "leveraged" by pledging the revenue stream to the issuance of bonds and granting or lending the bond proceeds. All projects to be financed must be approved by the Legislature.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Basis of Presentation - Fund Accounting - continued

Enterprise Funds - continued

Enterprise Fund - New Mexico Drinking Water State Revolving Loan Fund. The New Mexico Drinking Water State Revolving Loan Fund Act (Act) created the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the Authority. The Authority is charged with establishing, in cooperation with the New Mexico Environment Department, a loan program to provide local authorities with low-cost financial assistance in the construction of necessary drinking water facilities. Money deposited into the DWRLF may be used: 1) to make loans at or below the market rate for eligible purposes for terms no longer than twenty years after completion of construction (loans for disadvantaged communities are the exception and may be for terms up to thirty years); 2) to buy or refinance a municipality's debt obligation, if combined with a new project, if the debt was incurred after July 1, 1993; 3) to guarantee or buy insurance for a local obligation to improve credit access or market rates; 4) as a source of revenue of security for the payment of principal and interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF, and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

Enterprise Fund - Primary Care Capital Fund. The Laws of 1994, Chapter 62, created the Primary Care Capital Fund to provide funding for capital projects to eligible entities in order to increase health care services in rural and other health care under-served areas in the state. The revolving fund, to be administered by the Authority, shall consist of appropriations, loan repayments, gifts, grants, donations and interest earned on investment of the fund. Money in the fund shall not revert at any fiscal year end. The State of New Mexico Department of Health and the Authority administer the loan programs and contracts for services established pursuant to the Primary Care Capital Funding Act. The Department of Health, in conjunction with the Authority, shall adopt regulations to administer and implement the Act. Laws of 1994, Chapter 147, appropriated $5,000,000 for the Primary Care Capital Fund for rural primary care capital funding. Laws of 1994, Chapter 6, appropriated $95,000 to the Department of Health to contract with the Authority

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Basis of Presentation - Fund Accounting - continued

Enterprise Funds - continued

Enterprise Fund - Primary Care Capital Fund - continued. for assistance to the Department and administration of the Primary Care Capital Fund.

Enterprise Fund - GRIP Administrative Fund. The purpose of this fund is to record the administrative expenditures and fee revenue related to the New Mexico Department of Transportation (NMDOT) Series 2004A, B and C bond issues completed by the Authority on behalf of the NMDOT. Pursuant to a memorandum of understanding between the Authority and the NMDOT, the Authority is to receive an annual fee of 25 basis points on the outstanding debt on the 2004A Bonds for issuing the NMDOT debt, managing the outstanding debt portfolio and investing the proceeds until drawn down by the NMDOT.

Enterprise Fund - Child Care Revolving Loan Fund. Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the Authority with the New Mexico Children, Youth and Families Department to provide low-cost financing to licensed child care providers. The program received $250,000 in funding from an allocation of federal funds during fiscal year 2004.

Enterprise Fund - Behavioral Health Capital Fund. This fund was created with the passage of Senate Bill 248 in the 2004 legislative session. The purpose of this fund is to support the physical improvement, repair, safety and maintenance of licensed child care facilities throughout New Mexico by providing long-term, low interest funding through a revolving loan fund, so as to ensure availability of healthy and safe teaching environments.

Enterprise Fund - Cigarette Tax Revenue Bond – Behavioral Health Capital Fund (BHCF). The BHCF was set up to provide funding for capital projects to non-profit providers to increase health care services to sick and indigent patients. The 2004 Legislature created this fund to provide low cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. The Authority was authorized to issue up to $2,500,000 in bonds, secured by a portion of the net cigarette tax receipts collected by the State and distributed to the Authority. A private placement of $2,500,000 in bonds was issued during fiscal year 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Basis of Presentation - Fund Accounting - continued

Enterprise Funds - continued

Enterprise Fund – Local Transportation Infrastructure Fund (Local Road Fund). This fund was created to provide local government not eligible for Federal funding, whose needs have not been met by the existing Local Government Road Fund, with grants and low cost financial assistance for transportation projects. The program is jointly administered by the Authority and the NMDOT. The NMDOT determines feasibility and priority of recommended projects and the Authority makes loans and grants to the recommended projects. Grants are capped at 25 percent of the project cost.

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the NMDOT (see Note 12).

♦ Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized when the underlying transaction has occurred. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Measurement Focus and Basis of Accounting - continued*

finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period). For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory, and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. Total interest expense incurred during the year ended June 30, 2006, was $6,264,743.

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

When both restricted and unrestricted net assets are available for expenses, unrestricted funds are applied first.

♦ *Cash and Cash Equivalents*

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

For pooled funds on deposit with the New Mexico State Treasurer, interest is credited to the various programs based on the program's average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ *Cash and Cash Equivalents - continued*

level of 50%. Separate financial statements of the State Treasurer indicate collateral, categories of risk and market value of purchased investments which may differ from the cash deposited by the Authority. Funds held by the banks and the Authority acting as trustees are invested in money market accounts that invest in United States Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Repurchase agreements are collateralized at 102% in accordance with the Authority's internal policy.

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

♦ *Securities*

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

♦ *Loans*

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

♦ *Allowance for Loan Losses*

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and any necessary adjustments are reported in income in the period they become known. The Authority has not experienced any losses on its loan portfolio.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Restricted Assets

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legislation. The cash and cash equivalents held for others by trustees have the following restricted assets. The "debt service and bond reserve" accounts are used to report resources held by trustee and set aside for future debt service payments. The "program-grant proceeds" account is used to report those proceeds of bond issuances that were issued to finance a grant to another state agency. The "program-bond proceeds" account is used to report those proceeds of bond issues that were loaned to other governmental entities, which the borrowers have not yet expended. The "expense fund" account is used to cover professional expenses incurred during the bond offering process.

♦ Budgets and Budgetary Accounting

The Authority prepares a budget for the operations fund and for the DWRLF. These budgets are approved by the Authority's board but are not legally binding, and therefore are not presented in the financial statements. These budgets may also be amended by the Authority's board. The budgets are prepared on a non-GAAP basis. The differences between the budgetary basis and GAAP basis are that capital outlay expenditures are included as a budgetary expenditure and depreciation expense is not a budgetary expenditure.

♦ Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding $500 that significantly extend the useful life of an asset are capitalized. The Authority is adopting the New Mexico State Capitalization threshold of $5,000 in the next fiscal year. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of three years or less, and repairs and maintenance that do not extend the useful lives of premises and equipment are expensed as incurred. The Authority does not have any internally developed software.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on estimated useful lives ranging from three to seven years.

♦ Income Taxes

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Compensated Absences***

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

Full-time employees are entitled to twelve days of sick leave each fiscal year. When employees terminate, they are compensated at twenty-five (25%) of their current hourly rate of accumulated unpaid sick leave up to 300 hours. Part-time employees accrue vacation leave and sick leave on a prorated basis based on the number of hours they work. Accrued compensated absences are recorded and liquidated in the operating fund.

♦ ***Cash Flows***

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

♦ ***Bond Discounts, Premiums and Issuance Costs***

In governmental fund types, bond discounts, premiums and issuance costs are recognized in the period incurred. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred costs.

♦ ***Fund Equity***

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

♦ ***Net Assets***

The government-wide and business type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

> Investment in capital 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.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

♦ ***Net Assets - continued***

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

Unrestricted assets represent liquid assets.

♦ ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

♦ ***Interfund and Interagency Transactions***

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

All other interfund transactions, except reimbursements and administrative fee transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are recorded as operating transfers in (out) to other state agency under the other financing sources (uses) category.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE*

Funds held for others and short-term investments are held at the trustees in the names of the applicable government entity and the Authority. The repurchase agreements are overnight only. The following is a reconciliation of cash and cash equivalents to the financial statements.

		Book Balance	Bank Balance
Government-wide statement of net assets:			
State Treasurer Local Government Investment Pool	$	55,988,450	55,809,536
The Primary Care Capital Fund held at the State Treasurer's Office		2,845,585	2,845,585

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

		Book Balance	Bank Balance
Government-wide statement of net assets - continued:			
State Treasurer's office cash held at Bank of Albuquerque in money market accounts	$	97,570,334	99,683,333
Bank of Albuquerque trust accounts		119,065,618	119,065,618
Reserve on Bond Payable held in Bank of America		264,356	264,356
Wells Fargo operating accounts		229,447	248,189
	$	275,963,790	277,916,617
Agency Fund:			
Money market accounts invested in Bank of Albuquerque	$	408,236,061	408,236,061
	$	408,236,061	408,236,061

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

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

Participation in the local government investment pool is voluntary. The investments are valued at fair value based on quoted market prices as of the valuation date.

2. *CASH AND CASH EQUIVALENTS AND FUNDS HELD FOR OTHERS BY TRUSTEE - continued*

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its collateral securities that are in the possession of an outside party. The Authority's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in the Authority's name.

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES*

Loan receivable balances consist of the following at June 30, 2006:

Enterprise funds:	
Public Projects Revolving Loan Fund,	
net of allowance of $482,420	$ 551,812,951
Primary Care Capital Fund	4,541,415
Drinking Water State Revolving Loan Fund	17,329,581
Behavioral Health Capital Fund	431,370
	574,115,317
Governmental funds:	
C.O.P.S.	669,000
	$ 574,784,317

♦ *Public Projects Revolving Loan Fund*

The Public Projects Revolving Loan Fund loans receivable balance at June 30, 2006 is $551,812,951, net of allowance of $482,420, 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:

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ ***Public Projects Revolving Loan Fund – continued***

		Principal	Interest	Total
July 1, 2006 to June 30, 2007	$	38,319,850	19,875,333	58,195,184
July 1, 2007 to maturity		513,975,521	187,098,108	701,073,629
	$	552,295,371	206,973,441	759,268,812

♦ ***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, 2006 to June 30, 2007	$	430,580	136,954	567,535
July 1, 2007 to maturity		4,110,835	644,738	4,755,572
	$	4,541,415	781,692	5,323,107

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

♦ ***Drinking Water State Revolving Loan Fund***

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

		Principal	Interest	Total
July 1, 2006 to June 30, 2007	$	1,014,361	331,537	1,345,898
July 1, 2007 to maturity		16,315,220	2,269,996	18,585,216
	$	17,329,581	2,601,533	19,931,115

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

♦ ***Behavioral Health Capital Fund***

The Behavioral Health Capital loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected on the loan repayment schedules at year-end.

3. *LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES - continued*

♦ *Behavioral Health Capital Fund - continued*

		Principal	Interest	Total
July 1, 2006 to June 30, 2007	$	30,382	11,863	42,245
July 1, 2007 to maturity		400,988	69,425	470,413
	$	431,370	81,288	512,658

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

♦ *C.O.P.S.*

The C.O.P.S. loans vary, with interest rates ranging from 4.75% to 6.618%. 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, 2006 to June 30, 2007	$	162,000	39,201	201,201
July 1, 2007 to maturity		507,000	122,858	629,858
	$	669,000	162,059	831,059

No allowance for uncollectible loans has been established as the loan is secured by applicable sources of pledged receivables.

4. *SECURITIES*

At June 30, 2006, securities for the Public Project Revolving Fund (PPRF) consisted of $11,202,538 of Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B and 2003B); $7,188 of Jemez Springs Bonds; and $495,651 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resources Bonds have interest rates ranging from 3% to 5.6%, with final maturity on May 1, 2018. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45%, with a final maturity on May 1, 2008. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19%, with final maturity on May 1, 2008. The securities are carried at cost, which approximates market value.

4. *SECURITIES - continued*

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

		Principal	Interest	Total	Weighted Average Maturity
July 1, 2006 to June 30, 2007	$	1,093,277	548,013	1,641,290	1.00
July 1, 2007 to maturity		10,612,100	2,887,887	13,499,987	9.51
	$	11,705,377	3,435,900	15,141,277	

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in The Authority's name. The Authority's investments in securities listed above are not collateralized.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS*

These amounts represent interfund receivables and payables arising from interfund transactions within the Authority. These balances are netted as part of the reconciliation to the government-wide columnar presentation.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Interfund receivables and payables as of June 30, 2006 consist of the following:

		Due To: Enterprise Funds PPRF 200s	Due To: Enterprise Funds Operating Fund 101	Total
Due From:				
Governmental Funds:				
Metro Court	304	$ 1,275,483	-	1,275,483
Water and Wastewater Grant	307	-	10,001	10,001
Water Project Fund	309	-	18,157	18,157
Emergency Drought Relief	312	-	884	884
Water Planning Grant	313	-	5,453	5,453
Economic Development	314	-	721,428	721,428
Total Governmental Funds		1,275,483	755,923	2,031,406
Enteprise Funds:				
GRIP Fund	104	$ -	41,118	41,118
Drinking Water	500	-	23,472	23,472
Child Care	319	-	48,756	48,756
Behavioral Health	311	-	289	289
Local Road Fund	504	-	26	26
PPRF	200s	-	101,415	101,415
Total Enterprise Funds		-	215,076	215,076
		$ 1,275,483	970,999	2,246,482

The $1,275,483 was for court facility fee revenues due to the PPRF Fund to pay debt service.

The $970,999 was for reimbursements due to the Operating Fund for expenses paid on behalf of the other funds.

5. *DUE FROM AND DUE TO OTHER FUNDS AND TRANSFERS - continued*

Transfers between funds for the year ended June 30, 2006 are as follows:

		Transfers Out: UNM Health Sciences 103/105	Metro Court 304	State Building 100	Water and Wastewater Project 307	Water Project Fund 309	Other	Total
Transfers In:								
Governmental Funds:								
UNM Health Sciences	103/105	$ -	-	2,449,277	-	-	-	2,449,277
Metro Court	304	1,364,277	-	987,079	1,945	-	-	2,353,301
State Building	100	-	3,175,091	1,244,010	-	-	-	4,419,101
Emergency Drought Relief	312	-	-	-	-	16,558	-	16,558
Water Planning Grant	313	-	-	-	-	-	-	-
Equipment Loan Fund	400s	-	-	-	-	-	-	-
Total Governmental Funds		1,364,277	3,175,091	4,680,366	1,945	16,558	-	9,238,237

		Operating Fund 101	CRIP Admin 104	Drinking Water 500	Behavioral Health 311	Cigarette Tax Revenue 321	PPRF 200s	Total
Enterprise Funds:								
Operating Fund	101	-	-	-	-	-	5,158,684	5,158,684
Drinking Water	500	-	-	(561,824)	-	-	-	(561,824)
Behavioral Health	311	-	-	-	-	7,767	-	7,767
Local Road Fund	504	-	875,000	-	-	-	-	875,000
Cigarette Tax Revenue	321	-	-	-	-	-	286,856	286,856
PPRF	200s	4,412,160	-	-	24,107	-	480,010,608	484,446,875
Total Enterprise Funds:		4,412,160	875,000	(561,824)	24,107	7,767	485,456,148	490,213,358
Total Governmental and Enterprise Funds		$ 5,776,437	4,050,091	4,118,542	26,052	24,325	485,456,148	499,451,595

Transfers in and out of the governmental funds are legilsatively appropriated revenues to pay debt service.

Enterprise fund transfers in and out are primarily movement of loan proceeds out to the borrowers to pay for program and construction costs.

There was $21,495 transferred from the Enterprise Funds to the Governmental funds for fiscal year ending 2006.

The following Enterprise Fund owed the following amount to other state agencies at June 30, 2006.

The Drinking Water Revolving Loan Fund owed $677,326 to the Environment Department for technical set-asides.

6. *TRANSFERS TO OTHER STATE AGENCIES*

The following debt service funds made the following transfers to other state agencies during the year ended June 30, 2006:

The UNM Health Sciences 2004A transferred $2,897,518 for revenue rebate to UNM from cigarette tax collections.

The Workers' Compensation Series 1996 transferred $784,264 for rebate revenue to Workers' Compensation.

The State Office Building Financing Fund transferred $9,797,728 in program fund requests to project draw requests, debt service payments and final debt service payment for NMSU building.

The following special revenue fund made the following transfer to other state agencies during the year ended June 30, 2006:

The State Building Program Cigarette Tax Fund transferred $94,150 for the UNM Law Library debt service.

The following enterprise funds made the following transfers to other state agencies during the year ended June 30, 2006:

The PPRF Series 2005 C & D Metro Court Refunding transferred $696,524 for project draw requests and revenue rebate to Metro Court.

The New Mexico Drinking Water Revolving Loan Fund transferred $2,860,031 to the New Mexico Environment Department for billings.

7. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

Business-type Activities		Balance June 30, 2005	Additions	Adjustments/ Deletions	Balance June 30, 2006
Depreciable assets:					
Furniture and fixtures at historical cost	$	259,439	59,360	(161,273)	157,526
Computer hardware and software		-	199,702	159,622	359,324
Machinery and equipment		-	24,656	907	25,563
Leasehold improvements		2,934	7,623	-	10,557
		262,373	291,341	(744)	552,970
Accumulated depreciation:					
Furniture and fixtures		(120,438)	(14,502)	744	(134,196)
Computer hardware and software		-	(48,788)	-	(48,788)
Machinery and equipment		-	(6,024)	-	(6,024)
Leasehold improvements		(1,217)	(1,863)	-	(3,080)
		(121,655)	(71,177)	744	(192,088)
Net total	$	140,718	220,164	-	360,882

Depreciation expense was $25,379 in the Operating Fund, $18,391 in the Public Project Revolving Fund, $12,355 in the Drinking Water Revolving Loan Fund, and $15,052 in the GRIP Administrative Fund for the year ended June 30, 2006.

7. *CAPITAL ASSETS - continued*

Governmental Activities		Balance June 30, 2005	Additions	Adjustments/ Deletions	Balance June 30, 2006
Depreciable assets:					
Furniture and fixtures at historical cost	$	145,129	57,033	(44,492)	157,670
Computer hardware and software		-	72,871	44,004	116,875
Machinery and equipment		-	24,392	488	24,880
Leasehold improvements		2,747	7,723	-	10,470
		147,876	162,019	-	309,895
Accumulated depreciation:					
Furniture and fixtures		(28,528)	(17,100)	-	(45,628)
Computer hardware and software		-	(21,849)	-	(21,849)
Machinery and equipment		-	(7,313)	-	(7,313)
Leasehold improvements		(540)	2,316	-	(2,856)
Accumulated depreciation		(29,068)	(48,578)	-	(77,646)
Net total	$	118,808	113,441	-	232,249

Depreciation expense was $12,267 in the Water and Wastewater Project Grant Fund, $12,398 in the Water Project Fund, $4,954 in the Emergency Drought Water Program Fund, $9,299 in the Water and Wastewater Planning Grant Fund and $9,660 in the Economic Development Fund for the year ended June 30, 2006.

8. *BONDS PAYABLE*

Bonds outstanding as of June 30, 2006, for the Authority's enterprise funds consist of the following:

Public Project Revolving Funds (PPRF)

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

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

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

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

8. *BONDS PAYABLE - continued*

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2002A. On July 2, 2002, the Authority issued $55,610,000 of Public Project Revolving Fund, Series 2002A Bonds. The Series 2002A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2002A Bonds.

PPRF Series 2003A. On April 3, 2003, the Authority issued $39,945,000 of Public Project Revolving Fund, Series 2003A Bonds. The Series 2003A Bonds were issued to reimburse the Public Project Revolving Fund for loans made by the Authority to various governmental units and to reimburse the Authority for and to finance the costs of issuance of the Series 2003A Bonds.

PPRF Series 2003B. On June 5, 2003, the Authority issued $25,370,000 of Public Project Revolving Fund, Series 2003B Bonds. The Series 2003B Bonds were issued to 1) refund the Authority's outstanding Public Project Revolving Fund Revenue Bonds, Series 1995A, maturing on and after June 1, 2006, and Public Project Revolving Fund Revenue Bonds, Series 1996A, maturing on and after June 1, 2007; and 2) finance the costs of issuance of the Series 2003B Bonds and the refunding of the Series 1995A and 1996A Bonds.

PPRF Series 2004A. On January 28, 2004, the Authority issued $43,400,000 of Public Project Revolving Fund, Series 2004A Bonds. The Series 2004A Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004A Bonds.

PPRF Series 2004B. On June 9, 2004, the Authority issued $49,540,000 of Public Project Revolving Fund, Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects; and 2) finance the costs of issuance of the Series 2004B Bonds.

8. BONDS PAYABLE - continued

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2004C. On October 1, 2004, the Authority issued $168,890,000 of Public Project Revolving Fund Series 2004C Revenue Bonds. The Series 2004C Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the Authority to certain governmental entities for the purpose of financing public projects, 2) fund the loan to the Albuquerque Bernalillo County Water Utility Authority, and 3) finance the costs of issuance of the Series 2004C Bonds.

PPRF Series 2005A and B. On August 1, 2005, the Authority issued $19,015,000 of Public Project Revolving Fund Series 2005A Revenue Bonds and $13,500,000 of Public Project Revolving Fund Series 2005B Refunding Revenue Bonds. The Series 2005A and B Bonds were issued to 1) advance refund certain outstanding Public Project Revolving Fund Bonds, 2) reimburse the Public Project Revolving Fund for loans made by the Authority to governmental entities for the purpose of funding public projects, and 3) finance the costs of issuance of the Series 2005A and B Bonds.

PPRF Series 2005C and D. On April 5, 2005, the Authority issued $50,395,000 of Subordinate Lien Public Project Series 2005C and $8,660,000 of Taxable Subordinate Lien Public Project Series 2005D Revolving Fund Refunding Revenue Bonds. The Series 2005C and D Bonds were issued to 1) purchase the Authority's Court Facilities Fee Refunding Revenue Bonds, and 2) finance the costs of issuance of the Series 2005C and D Bonds.

PPRF Series 2005E. On August 30, 2005, the Authority issued $23,630,000 of Subordinate Lien Public Project Revolving Fund Series 2005E Revenue Bonds. The Series 2005E Bonds were issued to 1) purchase the Authority's Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2005, and 2) finance the costs of issuance of the Series 2005E Bonds.

PPRF Series 2005F. On December 7, 2005, the Authority issued $21,950,000 of Subordinate Lien Public Project Revolving Fund Series 2005 F Revenue Bonds. The 2005 F Series Bonds were issued to 1) directly fund, or to reimburse the Public Projects Revolving Fund for, loans made by the NMFA to certain governmental entities for the purpose of financing public projects, 2) purchase a Reserve Instrument, and 3) pay the cost of issuance of the Series 2005 F Bonds.

8. BONDS PAYABLE - continued

Public Project Revolving Funds (PPRF) - continued

PPRF Series 2006A. On March 28, 2006, the Authority issued $49,545,000 of Subordinate Lien Public Project Revolving Fund Series 2006 A Revenue Bonds. The 2006 A Series Bonds were issued to 1) originating loans or reimbursing the NMFA for moneys used to originate loans to, or purchase securities from, certain governmental entities that will be or were used to finance certain projects for such governmental units, 2) purchase a reserve surety bond for deposit to the debt service reserve account established for the Series 2006 A Bonds, and 3) pay costs incurred in connection with the issuance of the Series 2006 A Bonds.

PPRF Series 2006B. On June 27, 2006, the Authority issued $38,260,000 of Senior Lien Public Project Revolving Fund Series 2006 B Revenue Bonds. The 2006 B Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for or to originate loans made or to be made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units and, 2) pay costs incurred in connection with the issuance of the Series 2006 B Bonds.

PPRF Series 2006D. On September 6, 2006, the Authority issued $54,600,000 of Senior Lien Public Project Revolving Fund Series 2006 D Revenue Bonds. The 2006 D Series Bonds were issued to 1) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of funding public projects for such governmental units, 2) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue Bonds, Series 2006 A (PERA Building Acquisition) (the "2006A Bonds") to finance the acquisition and improvement of a public building for use by the State with proceeds of the 2006 A Bonds, 3) purchase contemporaneously with the issuance of the Series 2006 D Bonds the NMFA State Building Tax Revenue bonds Series 2006 B (Refunding Project) (the "2006 B Bonds") to refund the outstanding NMFA State Office Building Bonds Series 2002 A with proceeds of the Series 2006 B Bonds, and 4) pay costs incurred in connection with the issuance of the Series 2006 D Bonds.

8. *BONDS PAYABLE - continued*

Bonds outstanding as of June 30, 2006, to be paid out of the Authority's debt service funds consist of the following:

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

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

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

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

8. *BONDS PAYABLE - continued*

Metro Court Financing Fund. On September 1, 2002, the Authority issued $24,900,000 of New Mexico Finance Authority Court Facilities Fee Revenue Bonds, Series 2002 (Tax Exempt). The Series 2002 Bonds were issued by the Authority for the purpose of financing the acquisition of real property for the design, construction, furnishing and equipping of a new court building for the Bernalillo County Metropolitan Court and to finance the costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds were issued pursuant to the bond resolution with a lien on the Pledged Court Facilities revenues on parity, with the liens thereon of the $21,600,000 Authority Court Facilities Fee Revenue Bonds, Series 2001A, and the $11,400,000 Authority Taxable Court Facilities Fee Revenue Bonds, Series 2001B.

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

In October 1994, the Authority issued $646,000 aggregate principal amount of its Pooled Equipment Certificates of Participation, Series 1994A, the net proceeds of which were used to make loans to ten local governments in the State. On August 29, 1995, the Authority issued $4,288,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995A. The proceeds were loaned to 18 governmental entities in the state. On August 29,1995, the Authority issued $2,904,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1995B. The net proceeds were loaned to the City of Las Cruces. On March 19, 1996, the Authority issued $1,458,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 1996A. The net proceeds were loaned to 13 local governmental entities in the state. On December 3, 1996, the Authority issued $1,820,000 aggregate principal amount of its Pooled Equipment Program Certificates of Participation, Series 19965B. The net proceeds were loaned to various governmental entities in the state. Interest rates on the equipment loans range from 4.5% to 6.3%.

8. BONDS PAYABLE - continued

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

UNM Health Sciences Fund. Cigarette Tax Series 2004A Revenue Bonds. On April 1, 2004, the Authority issued $39,035,000 of Cigarette Tax Series 2004A Revenue Bonds (UNM Health Services Center Project). The Series 2004A Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004A bonds.

UNM Health Sciences 2004B. On September 22, 2004, the Authority issued $10,000,000 of Cigarette Tax Revenue Series 2004B Revenue Bonds. The Series 2004B Bonds were issued to 1) finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico; and 2) finance the costs of issuance of the Series 2004B Bonds.

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities.

8. *BONDS PAYABLE - continued*

Bonds payable and related premium/discount balances consist of the following at June 30, 2006:

		Amount	Interest Rate	Final Maturity
Enterprise Funds:				
PPRF 1997A	$	5,455,000	4.25 - 5.00	6/1/2007
PPRF 1999A, B, C and D		12,935,000	3.30 - 6.30	6/1/2018
PPRF 2000A		1,650,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C		11,055,000	4.35 - 5.60	6/1/2030
PPRF 2002A		27,975,000	2.00 - 5.00	6/1/2026
PPRF 2003A		32,788,000	2.00 - 4.75	6/1/2032
PPRF 2003B		23,545,000	2.00 - 5.00	6/1/2021
PPRF 2004A		37,430,000	1.125 - 5.00	6/1/2031
PPRF 2004B		44,680,000	3.00 - 5.125	6/1/2033
PPRF 2004C		157,785,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D		54,750,000	3.05 - 5.00	Various
PPRF 2005A		18,095,000	3.00 – 4.25	6/1/2025
PPRF 2005B		13,320,000	3.00 – 4.25	6/1/2020
PPRF 2005E		23,630,000	4.00 - 5.00	6/15/2025
PPRF 2005F		21,950,000	4.00 - 5.00	6/15/2022
PPRF 2006A		49,545,000	4.00 - 5.00	6/15/2035
PPRF 2006B		38,260,000	4.00 - 5.00	6/1/2036
CIG TAX 2006 – Behavioral Health		2,500,000	5.51	5/1/2026
		577,348,000		
Bond premium and discount, net on enterprise funds		27,353,958		
Total	$	604,701,958		

8. *BONDS PAYABLE – continued*

		Amount	Interest Rate	Final Maturity
To be paid out of Debt Service Funds:				
UNM Health Sciences	$	29,670,000	2.00 - 5.00	6/30/2019
UNM Health Sciences 2004B		8,915,000	2.10 - 5.50	6/30/2019
Workers' Compensation Financing Fund		2,950,000	5.00 - 5.60	3/1/2017
Metro Court		45,975,000	5.50 - 5.80	2025
State Capitol Improvement Financing Fund		6,490,000	7.00	6/1/2021
State Building Purchase Fund		28,850,000	4.00 - 5.00	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B		225,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A		67,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B		377,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond		-	3.95 - 5.25	6/1/2006
		123,519,000		
Bond premium and discount, net on Debt Service Funds		2,169,977		
Total	$	125,688,977		

The requirements to amortize the bonds payable and the related premium/discount outstanding are as follows:

		Principal	Interest	Total
2007	$	39,787,000	32,897,047	72,684,047
2008		33,671,000	31,046,604	64,717,604
2009		44,125,000	29,760,223	73,885,223
2010		37,905,000	28,286,524	66,191,524
2011		39,987,000	26,605,564	66,592,564
2012 - 2016		213,781,000	103,313,177	317,094,177
2017 - 2021		157,293,000	56,675,428	213,968,428
2022 - 2026		101,850,000	20,549,071	122,399,071
2027 - 2031		17,576,000	6,297,652	23,873,652
2032 - 2033		14,892,000	2,009,855	16,901,855
Total	$	700,867,000	337,441,145	1,038,308,145

8. BONDS PAYABLE - continued

The bonds payable activity for the year is as follows:

		Balance, July 1, 2005	Additions	Deletions	Balance, June 30, 2006
Enterprise Funds	$	438,020,000	168,400,000	(29,072,000)	577,348,000
Debt Service Funds		132,765,000	-	(9,246,000)	123,519,000
Total	$	570,785,000	168,400,000	(38,318,000)	700,867,000

The amount of bonds payable due within one year is $39,787,000.

The following bonds were issued by the Authority in an agency capacity and are not included in the Authority's financial statements (see Note 12):

State Transportation Series 2004A Revenue Bonds. On May 20, 2004, the Authority issued $700,000,000 of State Transportation, Series 2004A, Revenue Bonds. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004B Revenue Bonds. On May 20, 2004, the Authority issued $237,950,000 of State Transportation, Series 2004B, Refunding Revenue Bonds. The Series 2004B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

State Transportation Series 2004C Revenue Bonds. On May 20, 2004, the Authority issued $200,000,000 of State Transportation, Series 2004C, Refunding Revenue Bonds. The Series 2004C Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the Authority and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

9. *OPERATING LEASE COMMITMENT*

The Authority is committed under various lease agreements for office space and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2006 amounted to approximately $275,765.

Future minimum lease payments for these leases are as follows:

Years ending June 30:		
2007	$	290,140
2008		299,121
2009		307,598
2010		319,902
2011 and thereafter		-
	$	1,216,761

10. *RETIREMENT PLAN*

The Authority established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple-employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested, and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were $263,313, $204,975 and $153,937 for the years ended June 30, 2006, 2005 and 2004, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2006, Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

10. RETIREMENT PLAN - continued

Statement of Fiduciary Net Assets

Assets:		
Cash	$	20,331
Self-directed accounts (cash and investments)		1,110,611
Guaranteed Account		5,295
Participant loan receivable		25,492
Total assets	$	1,161,729
Net assets:		
Pension plan participants' benefits	$	1,161,729

Statement of Changes in Net Assets

Additions:		
Investment earnings	$	83,228
Employer contributions		263,313
Employee contributions		78,054
Total additions		424,595
Deductions:		
Distributions to participants		143,164
Investment expenses		9,663
Total deductions		152,827
Change in net assets		271,768
Net assets - beginning		889,961
Net assets - ending	$	1,161,729

10. RETIREMENT PLAN - continued

During the year ended June 30, 2005, the Authority adopted a retirement plan in accordance with an "eligible deferred compensation plan" pursuant to Section 457 of the Internal Revenue Code for its Executive Director and its Chief Operating Officer. The Authority contributes nine percent of compensation to the plan. The contributions are made regardless of the number of hours worked or the employment status on the last day of the plan year. Employer contributions are limited by IRS Code Section 457(e)(15)(A). The employee is fully vested at all times. Employer contributions for the year ended June 30, 2006 were $24,450.

11. COMPENSATED ABSENCES

During the year ended June 30, 2006, the following changes occurred in the compensated absences liabilities:

	Balance, July 1, 2005	Additions	Deletions	Balance, June 30, 2006
$	132,278	72,728	(42,729)	162,277

The portion of compensated absences due after one year is not material and, therefore, not presented separately. Compensated absences are liquidated from the operating fund. There are no compensated absences for the governmental funds.

12. AGENCY TRANSACTIONS

Bond Issues

The Authority, on behalf of the New Mexico Department of Transportation (NMDOT), issued $700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A in May 2004. The gross proceeds to the Authority were $738,787,815, including $43,556,815 of an original issue premium. The cost of issuance including underwriter fees was $6,368,367. The Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and the NMDOT has determined to be necessary or desirable.

12. *AGENCY TRANSACTIONS - continued*

NMDOT is responsible for the Authority's issuance costs and must annually pay the Authority twenty-five basis points on the outstanding principal balance. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 3.8% to 5.25% per annum is payable semi-annually on June 15 and December 15 through the year 2024.

The Authority, on behalf of the NMDOT, issued $237,950,000 and $200,000,000 (Authority) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C in May 2004. The gross proceeds to the Authority for both issuances were $451,069,205, including $16,347,187 of an original issue premium. The cost of issuance including underwriter fees was $4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The $237,950,000 Series 2004B Bonds are special, limited obligations of the NMDOT, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund and not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the Authority and the Commission.

The NMDOT is responsible for the Authority issuance costs. Principal of the bonds is payable as follows on June 15. Interest with rates ranging from 2% to 5% per annum is payable semi-annually on June 15 and December 15 through the year 2014.

The Series 2004C Bonds are special, limited obligations of the NMDOT payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C Bonds or which may hereafter be issued through the Authority. The bonds are being issued through the Authority at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

The Authority is responsible for its issuance costs. Principal of the Bonds is payable as follows on June 15 with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is fixed at 3.393% based on a swap agreement in place at June 30, 2004.

12. *AGENCY TRANSACTIONS - continued*

For the year ended June 30, 2006, the Authority recorded $1,750,000 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2006, the Authority had $408,236,061 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

Refunding

The Authority, on behalf of the NMDOT, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the NMDOT, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of $408,855,872 plus an additional $7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. $363,490,000 of the bonds outstanding was considered defeased as of June 30, 2006.

Interest Rate Swaps

State Transportation Revenue Bonds, Series 2006

Objective of the Swaps. In April of 2004, the New Mexico Finance Authority (the "Authority") entered into two (2) forward starting swaps with two (2) counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a $1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between $175 million and $200 million in cash which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072% based on an amortizing notional schedule

12. *AGENCY TRANSACTIONS - continued*

State Transportation Revenue Bonds, Series 2006 - continued

with a combined $220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. The option premium is equal to 0.34% per annum, resulting in a net fixed rate of 4.732%. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the swaps had a negative fair value of $6,818,902 without the option. The options had a negative value of $12,823,336 in isolation of the swaps, thus the swaps including the options had a total negative value of $19,642,238. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk. As of June 30, 2006 the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

Termination Risk. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. The swap also includes an additional termination event related to non-issuance of the associated bonds. That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial cash reserves which will mitigate this risk by generating variable rate income. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

12. AGENCY TRANSACTIONS - continued

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3

Objective of the Swap. In April of 2004, the Authority entered into three (3) swaps with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of $11,524,206.49 or 3.02% of the refunded bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate bonds at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swap was to effectively change the Authority's interest rate on the bonds to a fixed rate.

Terms. The swaps were executed with Goldman Sachs Mitsui Marine Derivative (Goldman), Lehman Brothers Derivative Products Inc. (Lehman) and Royal Bank of Canada (RBC) at respective initial amortizing notional amounts of $50,000,000, $50,000,000 and $100,000,000. The counterparties were, at the trade date, rated AA+/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody',s respectively. All three swaps commenced on May 20, 2004 and will mature on June 15, 2024. Under the swaps, the Authority pays a fixed rate of 3.934% and received a variable rate computed as the BMA index until June 15, 2006, on which date the variable interest rate received switched to 68% of the one month London Interbank Offered Rate ("LIBOR") until maturity. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the Lehman swap and Goldman swap each had a fair value of $62,922, while the RBC swap had a fair value of $125,844. The total fair value on all the swaps was $251,688. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk. As of June 30, 2006 the Authority is exposed to credit risk in an amount equal to the positive fair value for each of the swaps. To mitigate credit risk, the counterparties are required to post collateral based upon the agreed upon collateral threshold levels per the Credit Support Annex (CSA) which are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

12. *AGENCY TRANSACTIONS - continued*

$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued

Basis Risk. As of June 15, 2006, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The Authority is also exposed to tax risk, a form of basis risk, where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The effect of the difference in basis is indicated by the difference between the intended synthetic rate (3.934%) and the synthetic rate as of June 30, 2006 (4.197%). The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2006, the rate on the bonds was 3.89%, whereas 68% of one month LIBOR was 3.627%.

Termination Risk. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt: As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending		Variable Rate Bonds		Interest Rate	
June 30		Principal	Interest	Swaps, Net	Total
2007	$	-	7,780,000	614,000	8,394,000
2008		-	7,780,000	614,000	8,394,000
2009		-	7,780,000	614,000	8,394,000
2010		-	7,780,000	614,000	8,394,000
2011		-	7,780,000	614,000	8,394,000
2012 - 2016		-	38,900,000	3,070,000	41,970,000
2017 - 2021		-	38,900,000	3,070,000	41,970,000
2022 - 2024		200,000,000	20,511,645	1,618,785	22,130,431
	$	200,000,000	137,211,645	10,828,785	148,040,431

13. *SUBSEQUENT EVENTS*

After June 30, 2006, the Authority issued the following PPRF Direct Loans, Water Project Fund/Water Trust Board Grants, Water Wastewater Grants, and Senior Lien PPRF Revenue Bonds:

	Closing Date		Amount
PPRF Cash Loans:			
City of Catron – Cruz, Apac, Aragon VFD	7/14/2006	$	277,778
Edgewood SWCD	7/14/2006		427,511
City of Roswell – Police Department	7/21/2006		583,000
Union County	7/21/2006		1,836,505
City of Las Cruces	7/28/2006		268,552
Gallup - McKinley County School District	7/28/2006		13,580,026
Socorro County – Hop Canyon VFD	7/28/2006		266,651
Belen Cons. School District No. 2	8/4/2006		1,000,000
City of Alamogordo	8/11/2006		730,453
Jicarilla Apache Tribal Utility Authority	8/11/2006		21,650,229
City of Bayard	8/18/2006		175,000
Quay County – Jordan FD	8/18/2006		100,000
Dept. of Health – Behavioral Health Institute	8/25/2006		1,000,000
Dept. of Health – Rehabilitation Center	8/25/2006		1,000,000
Otero County – Oro Grande FD	8/25/2006		91,109
Otero County – Pinon VFD	8/25/2006		80,000
Zuni Public Schools – T-house Bonds	9/8/2006		2,702,601
Chaves County – East Grand VFD	9/22/2006		150,000
Farmington Municipal School District No. 5	9/29/2006		1,100,000
Jemez Public School District No. 31	9/29/2006		750,000
Lincoln County – Bonito VFD	9/29/2006		90,000
City of Bayard	10/6/2006		40,000
City of Rio Rancho	10/6/2006		717,868
City of Rio Rancho – Tax Exempt	10/6/2006		8,764,398
		$	57,381,681
Water Project Fund/Water Trust Board:			
Cloudcroft Village	8/4/2006	$	500,000
City of Las Vegas	8/11/2006		1,471,400
ENMRWA – City of Clovis (FA)	8/11/2006		1,000,000
Interstate Stream Comm.	8/11/2006		900,000
Pojoaque Pueblo	9/15/2006		1,000,000
		$	4,871,400

13. SUBSEQUENT EVENTS - continued

	Closing Date		Amount
Water Wastewater Grants:			
Las Vegas	8/25/2006	$	399,996
Las Vegas	8/25/2006		2,277,000
Mora MDWCA	9/29/2006		400,000
Los Ojos MDWCA	10/6/2006		154,350
		$	3,231,346
Senior Lien PPRF Revenue Bonds Series 2006D	9/5/2006	$	56,400,000
		$	56,400,000
PPRF Revenue Bonds Series 2005A	8/1/2005	$	19,015,000
		$	19,015,000
PPRF Revenue Bonds Series 2005B	8/1/2005	$	13,500,000
		$	13,500,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005C	4/5/2005	$	50,395,000
		$	50,395,000
Taxable Subordinate Lien PPRF Refunding Revenue Bonds Series 2005D	4/5/2005	$	8,660,000
		$	8,660,000
Subordinate Lien PPRF Refunding Revenue Bonds Series 2005E	8/30/2005	$	23,630,000
		$	23,630,000

Energy Efficiency and Renewable Energy Bonding Fund. House Bill 32 created the Energy Efficiency and Renewable Energy Bonding Fund at the Authority. The Authority would issue bonds based on projected savings and from a $200,000 per month allocation from the General Fund to the Authority. The proceeds from the bonds would be used to pay for energy efficient improvements at state-owned buildings or public schools. The Authority is authorized to issue up to $20 million in bonds for this purpose.

14. DEFICIT FUND / NET ASSETS

There are deficit fund balances of $736,503 in the Economic Development Fund, $46,656 in the Child Care Revolving Loan Fund and $1,386,623 in the Metro Court Financing Fund. The operating fund will cover the deficits in these funds.

There is a deficit in net assets of $73,470,696 in the governmental activities in the Statement of Net Assets. The decline in governmental net assets is the result of the decline in certain grant funds.

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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 2007C Bonds, copies of the Indenture will be available at the principal office of the Representative. Subsequent to the offering of the Series 2007C 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 Chairman, any Vice Chairman, Secretary, the Chief Executive Officer, 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, 2007.

"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, underwriters 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, underwriters 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 12 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;

(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 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 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; 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 successors 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., Standard & Poor's Ratings Services 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 Services.

"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 (a) rated in one of the three top rating categories by at least one of the Rating Agencies and (b) 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 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.

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 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 this 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);

(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.

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 2007C 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.

The information presented in this Appendix C relates to certain economic and demographic information relating to the State. Such information is for informational purposes and is presented to provide readers a sense of the economic and demographic composition of the State. Such information is available from the sources listed in the tables and is believed to be reliable. However, the NMFA has not verified and does not guarantee the accuracy of any such information.

Generally

The State, admitted as the forty-seventh state on January 6, 1912, 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 percent sunshine year-round. Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Evenings are crisp and cool in all seasons because of low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains). The State is an experience in comfortable living with its clean air, blue skies and fair weather.

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General and Commissioner of Public Lands who are elected to four-year terms beginning the January 1 after their election. An elected Executive Branch Officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to approximately 20 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms, members of the House for 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 may be convened by the Governor, and under certain limited circumstances, extraordinary sessions may be convened by the Legislature. Legislators receive no salary, but do receive per diem and mileage allowances while in session or performing official State business.

The judicial branch is composed of a statewide system including 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 Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990's, the State was the 12th fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent.

Most of this population growth is occurring in or near the larger 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 comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is comprised of San Juan County. The fastest growing counties in the state are Sandoval, Doña Ana, Bernalillo, San Juan, Luna and Lincoln. The following table sets forth information on population growth in New Mexico and nationally over the past decade.

POPULATION
NEW MEXICO AND THE UNITED STATES
1997-2006

	Population		Annual Percentage Change	
Year	New Mexico	United States	New Mexico	United States
1997	1,774,839	272,646,925	1.3%	1.2%
1998	1,793,484	275,854,104	1.1	1.2
1999	1,808,082	279,040,168	0.8	1.2
2000	1,821,656	282,216,952	0.7	1.1
2001	1,832,783	285,226,284	0.6	1.0
2002	1,855,353	288,125,973	1.2	1.0
2003	1,877,598	290,796,023	1.2	0.9
2004	1,900,620	293,638,158	1.2	1.0
2005	1,925,985	296,507,061	1.3	1.0
2006	1,954,599	299,398,484	1.5	1.0

Source: Population Division, U.S. Census Bureau, December 2006.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, 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 sets forth information on employment by industry over the period 1980-2005.

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TOTAL FULL-TIME AND PART-TIME EMPLOYMENT BY INDUSTRY

						Growth		
	1980	1990	2000	2001[1]	2005[1]	1980-1990	1990-2000	2001-2005[1]
Total employment	598,199	767,139	972,954	977,815	1,064,351	28.20%	26.80%	8.80%
Wage and salary employment	513,306	635,725	789,690	801,610	856,406	23.80	24.20	6.80
Proprietors employment	84,893	131,414	183,264	176,205	207,945	54.50	39.70	18.00
Farm proprietors employment	13,400	13,600	14,985	17,470	17,157	1.50	10.20	(1.80)
Nonfarm proprietors employment	71,493	117,814	168,279	158,735	190,788	64.80	42.80	20.20
By Industry								
Farm employment	22,191	19,766	21,760	24,091	24,685	(10.90)	10.10	2.50
Nonfarm employment	576,008	747,373	951,194	953,724	1,039,666	29.80	27.30	9.00
Private employment	428,156	568,085	748,804	748,250	820,099	32.70	31.80	9.60
Agricultural services, forestry, fishing and other	4,358	8,414	13,548	7,019	7,224	93.10	61.00	2.90
Mining	31,152	20,489	19,323	19,469	21,024	(34.20)	(5.70)	7.90
Oil and gas extraction	15,116	14,068	14,425	6,447	6,751	(6.90)	2.50	4.70
Mining and support activities for mining[2]	16,036	6,421	4,898	13,022	14,273	149.70	23.70	9.60
Construction	38,873	40,606	59,895	63,144	73,164	4.50	47.50	15.90
General building contractors	11,933	11,858	16,710	18,050	19,396	(0.60)	40.90	7.50
Heavy construction contractors	8,287	6,729	8,720	10,365	10,171	(18.80)	29.40	(1.90)
Special trade contractors	18,653	22,019	34,465	34,729	43,597	18.00	56.50	25.50
Manufacturing[3]	35,963	47,732	48,788	49,913	46,003	32.70	2.20	(7.80)
Durable goods	21,583	32,500	33,275	32,671	29,113	50.60	2.40	(10.90)
Nondurable goods[4]	14,380	15,232	15,513	17,242	16,890	5.90	1.80	(2.00)
Transportation and public utilities[5]	30,732	34,130	43,350	39,423	37,458	11.10	27.00	(5.00)
Wholesale trade	22,733	27,896	33,751	27,970	28,566	22.60	21.10	2.10
Retail trade[6]	98,075	134,482	172,516	175,525	183,919	37.10	28.30	4.80
Finance, insurance, and real estate[7]	37,945	46,955	62,905	60,113	69,993	23.70	34.00	16.40
Services[8]	128,325	207,381	294,728	308,674	338,935	61.60	42.10	9.80
Government and government enterprises	147,852	179,288	202,390	205,474	219,567	21.30	63.10	6.90
Federal, civilian	29,963	31,621	30,205	28,785	30,099	5.50	(4.50)	4.60
Military	21,794	22,552	17,167	17,106	16,258	3.50	(23.90)	(5.00)
State and local	96,095	125,115	155,018	159,583	173,210	30.20	23.90	8.50
State governmental	42,560	55,722	64,654	65,503	69,786	30.90	16.00	6.50
Local government	53,535	69,393	90,364	94,080	103,424	29.60	30.20	9.90

(1) Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2005 employment by industry data is not comparable with employment by industry data for the years 2000, 1990 and 1980. NAICS Industry groups and subgroups in the 2001 and 2005 data have been combined or extracted to approximate the SIC Industry groups listed for the years before 2001.

(2) The SIC subgroups, "Metal Mining," "Coal Mining" and "Nonmetallic Minerals, except fuels" were combined to approximate the NAICS category "Mining and Support Activities for Mining."

(3) The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

(4) The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing – Nondurable Goods" category have been combined to approximate the SIC "Manufacturing – Nondurable Goods" subcategory.

(5) The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS "Information" subcategories of "Broadcasting, except Internet" and "Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

(6) The NAICS "Accommodation and Food Services" subcategory of "Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

(7) The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

(8) The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, except Public Administration," and the subcategories, "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," "Information – Other Information Services" have been combined to approximate the SIC category "Services."

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

The following tables set forth selected additional economic and demographic data with respect to the State.

EMPLOYMENT AND LABOR FORCE
NEW MEXICO AND THE UNITED STATES
1997-2006

	Civilian Labor Force		Employed		Unemployment Rate		
Year	New Mexico[1]	United States[1]	New Mexico[1]	United States[1]	New Mexico	United States	N.M. as %of U.S. Rate
1997	823	136,297	769	129,558	6.60%	5.00%	133%
1998	836	137,673	784	131,463	6.20	4.50	139
1999	840	139,368	793	133,488	5.60	4.20	133
2000	851	142,583	809	136,891	5.00	4.00	127
2001	862	143,734	819	136,933	4.90	4.70	104
2002	875	144,863	828	136,485	5.50	5.80	95
2003	893	146,510	841	137,736	5.90	6.00	99
2004	912	149,401	860	139,252	5.70	5.50	103
2005	915	149,320	867	141,730	5.30	5.10	104
2006	935	151,428	896	144,427	4.20	4.60	91

(1) Figures rounded to nearest thousand.
(Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2007.)

PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
1997-2006

	Personal Income (000)		Annual Percentage Change	
Year	New Mexico	United States	New Mexico	United States
1997	$34,960,814	$6,907,332,000	4.80%	6.10%
1998	37,045,765	7,415,709,000	6.00	7.40
1999	38,045,599	7,796,137,000	2.70	5.10
2000	40,318,443	8,422,074,000	8.80	8.00
2001	44,138,165	8,716,992,000	9.50	3.50
2002	44,986,517	8,872,871,000	1.90	1.80
2003	46,650,275	9,150,320,000	3.70	3.10
2004	50,707,317	9,716,351,000	8.70	6.20
2005	53,714,363	10,220,942,000	5.90	5.20
2006[1]	57,998,275	10,860,916,880	8.00	6.30

(1) Preliminary estimate.
(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

PER CAPITA PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
1997-2006

	Per Capita Income			Annual Percentage Change	
Year	New Mexico	United States	N.M. as a % of U.S.	N.M.	U.S.
1997	$19,698	$25,334	78%	3.50%	4.80%
1998	20,656	26,883	77	4.90	6.10
1999	21,042	27,939	75	1.90	3.90
2000	22,133	29,843	74	5.20	6.80
2001	24,083	30,562	79	8.80	2.40
2002	24,247	30,795	79	0.70	0.80
2003	24,846	31,466	79	2.50	2.20
2004	26,679	33,090	81	7.40	5.20
2005	27,889	34,471	81	4.50	4.20
2006[1]	29,673	36,276	82	6.40	5.20

(1) Preliminary estimate.
(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

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WAGES AND SALARIES BY INDUSTRY SECTOR
1990, 2000, 2001 AND 2005

	New Mexico (Dollars in Thousands)				United States (Dollars in Millions)				Percent Change 2001-2005		Distribution of 2005 Wages and Salaries	
	2005[1]	2001[1]	2000	1990	2005[1]	2001[1]	2000	1990	N.M.	U.S.	N.M.	U.S.
Farm Total	252,352	176,072	179,521	95,849	21,404	17,920	16,781	11,767	43.30%	19.40%	0.90%	0.40%
Non-Farm												
Private												
Agricultural Services, Forestry, Fishing	84,932	72,008	143,971	62,663	17,836	15,968	30,886	15,164	17.90%	11.70%	0.30%	0.30
Mining	924,039	726,676	671,919	507,585	40,605	32,132	31,219	26,655	27.20	26.40	3.30	0.70
Construction	1,864,210	1,481,698	1,306,228	577,016	318,815	271,681	256,807	140,468	25.80	17.30	6.60	5.60
Manufacturing[2]	1,633,154	1,669,853	1,656,465	980,349	763,810	773,184	830,026	561,384	(2.20)	(1.20)	5.80	13.50
Transportation & Public Utilities[3]	1,294,999	1,239,195	1,351,378	884,830	361,463	295,851	313,333	179,390	4.50	22.20	4.60	6.40
Wholesale Trade	952,118	834,834	950,471	552,522	322,972	283,974	332,549	189,402	14.00	13.70	3.40	5.70
Retail Trade[4]	3,020,117	2,564,031	2,434,023	1,316,067	525,241	463,539	449,642	264,791	17.80	13.30	10.70	9.30
Finance, Insurance & Real Estate[5]	1,308,467	1,060,638	1,027,385	543,814	535,578	444,684	431,911	207,758	23.40	20.40	4.60	9.50
Services[6]	8,547,983	7,693,954	5,916,169	2,945,866	1,845,272	1,535,895	1,382,404	644,429	11.10	20.10	30.40	32.60
Total Private	19,635,730	16,283,154	15,458,009	8,370,712	4,674,424	4,116,908	4,058,777	2,229,441	20.60	13.50	69.70	82.60
Government												
Federal, Civilian	1,707,762	1,366,112	1,280,241	917,118	166,905	134,679	135,011	99,598	25.00	23.90	6.10	2.90
Military	678,213	495,168	477,480	440,596	80,074	54,970	50,520	46,332	37.00	45.70	2.40	1.40
State & Local	5,881,523	4,700,434	4,374,109	2,472,762	716,475	615,467	572,880	356,505	25.10	16.40	20.90	12.70
Total Government	8,267,498	6,561,714	6,131,830	3,830,476	963,454	805,116	758,411	502,435	26.00	19.70	29.40	17.00
Non-Farm Total:	27,903,228	22,844,868	21,589,839	12,201,188	5,637,878	4,922,024	4,817,188	2,731,876	22.10	14.50	99.10	99.60
Total	28,155,580	23,020,940	21,769,360	12,297,037	5,659,282	4,939,944	4,833,969	2,743,643	22.30	14.60	100.00	100.00

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(1) Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2005 employment by industry data is not comparable with employment by industry data for the years 2000, 1990 and 1980. NAICS Industry groups and subgroups in the 2001 and 2005 data have been combined or extracted to approximate the SIC Industry groups listed for the years before 2001.

(2) The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

(3) The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS "Information" subcategories of "Broadcasting, except Internet" and "Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

(4) The NAICS "Accommodation and Food Services" subcategory of "Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

(5) The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

(6) The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, except Public Administration," and the subcategories, "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," "Information – Other Information Services" have been combined to approximate the SIC category "Services."

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2007.)

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Form of Opinion of Brownstein Hyatt Farber Schreck, P.C.]

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 2007C

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 2007C in the aggregate principal amount of $131,860,000 (the "Series 2007C Bonds"). The Series 2007C Bonds are being issued for the purpose of (i) originating or reimbursing the NMFA for moneys used to originate loans to or purchase securities from certain governmental entities ("Governmental Units") that were used to finance certain Projects for such Governmental Units ("Loans"); (ii) paying in full amounts owing under the line of credit established with the Bank of America, N.A. on May 23, 2007; (iii) purchasing a reserve surety bond for deposit to the Debt Service Reserve Account established for the Series 2007C Bonds; and (iv) paying costs incurred in connection with the issuance of the Series 2007C 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 2007C 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 an Eighth Supplemental Indenture of Trust dated as of August 1, 2007 (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 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 2007C 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 2007C 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 2007C 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.

4. The interest on the Series 2007C Bonds is excludable from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax on certain corporations. We express no opinion regarding other federal income tax consequences caused by the receipt or accrual of interest on or ownership of the Series 2007C Bonds.

5. The interest on the Series 2007C Bonds is exempt from income taxes imposed directly thereon by the State.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the Series 2007C Bonds and the enforceability thereof and of the Indenture may be 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 been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement relating to the Series 2007C Bonds or any other offering material relating to the Series 2007C Bonds and we express no opinion relating thereto;

(c) 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

(d) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

This letter is furnished by us as Bond Counsel, is solely for the benefit of the NMFA and may not be relied upon by any other person or entity. No conclusions or statements other than those expressly stated herein are intended and they should not be inferred. We disclaim any obligation to update, revise or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in the law, or in interpretations thereof, that may hereafter occur, or for any reason whatsoever. It should be noted that we are members of the Bar of the State of New Mexico and this opinion is limited in all respects to matters of New Mexico and federal law. This letter is not to be used, circulated, quoted or otherwise referred to for any other purpose without our express written permission.

Very truly yours,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2007C Bonds, payment of principal, premium, if any, interest on the Series 2007C Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2007C Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2007C Bonds. The Series 2007C 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 2007C Bond certificate will be issued for each maturity of the Series 2007C Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 2007C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007C Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007C Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007C 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 2007C Bonds, except in the event that use of the book-entry system for the Series 2007C Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007C 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 2007C Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007C 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 2007C 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 2007C 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 the Series 2007C 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 2007C 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 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007C Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry only 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 2007C Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2007C 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 2007C Bonds.

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.

APPENDIX F

2007C GOVERNMENTAL UNITS AND LARGEST REPAYMENT OBLIGATIONS

2007C Governmental Units

As previously stated, a portion of the proceeds of the Series 2007C Bonds are being used to reimburse the NMFA for Loans previously made to the 2007C Governmental Units. The 2007C Governmental Units, the amount of their respective Loans, the agreement reserve amounts and the maturity dates of the Loans are listed in the following table:

Governmental Unit	Original Loan Amount	Agreement Reserve Amount[(1)]	Loan Maturity Date
Albuquerque Bernalillo County Water Utility Authority	$77,005,000	N/A	06/01/2025
City of Gallup	$1,452,605	$133,723	05/01/2023
New Mexico Junior College	4,363,720	342,798	05/01/2027
City of Las Cruces	1,036,112	111,111	05/01/2015
City of Las Cruces	2,139,117	207,116	05/01/2027
City of Las Cruces	6,311,058	611,057	05/01/2027
Aztec Municipal School District No. 2	15,000,000	N/A	10/01/2020
Pueblo of San Felipe	10,654,786	802,764	05/01/2027
Bloomfield School District No. 6	20,000,000	N/A	09/01/2022
Las Vegas City School District No. 2	1,800,000	N/A	07/15/2013

(1) The NMFA has adopted a policy which does not require an Agreement Reserve Account for certain types of Loans including those that have an "AA" credit rating, Loans secured by a pledge of the fire protection or state law enforcement funds that produce a debt service coverage ratio of two times, and Loans secured by a general obligation pledge of the respective Governmental Unit. Each of the Loans listed that does not have an Agreement Reserve Account falls into one of the aforementioned categories.
(Source: NMFA.)

Agreements Generating Largest Amount of Agreement Revenues

The following five Agreements represent the largest repayment obligations. Additional information concerning those Agreements and their obligors is provided below.

Bernalillo County Metropolitan Court Bonds. New Mexico's court system consists of five levels of state funded courts. These five levels of courts include the Supreme Court, the Court of Appeals, the District Courts, the Magistrate Courts, and the Metropolitan Courts. 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).

On April 5, 2005, the NMFA issued its $50,395,000 Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005C and Taxable Subordinate Lien Public Project Revolving Fund Refunding Revenue Bonds, Series 2005D. Proceeds from the sale of the Series 2005C Bonds and Series 2005D Bonds were used by the NMFA to purchase $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 (the "Metro Court Bonds"). The Metro Court Bonds provided 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.

The Metro Court Bonds are payable solely from the Pledged Court Facilities Revenues, 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 resolution authorizing the issuance of the Metro Court Bonds will also be pledged to secure repayment of the Metro Court Bonds.

Pledged Court Facilities Revenues have been declining since fiscal year 2004. The NMFA and the Administrative Office of the Courts are in the process of assessing options to maintain revenues sufficient to satisfy the debt service obligations on the Metro Court Bonds. Neither the NMFA nor the Bernalillo County Metropolitan Court can predict with certainty the future growth or decline of court fees and penalty assessments.

Indictments were recently handed down against various parties that are accused of engaging in a scheme of kickbacks in connection with the construction of the Bernalillo County Metropolitan Court Building. The NMFA has not conducted a comprehensive investigation of the alleged kickback scheme that is the subject of the indictment. However, the NMFA is not aware of any relationship between the indictments and the decline in Pledged Court Facilities Revenues. The Administrative Office of the Courts has announced that it will conduct an audit of the Bernalillo County Metropolitan Court. The audit may include the Pledged Court Facilities Revenues.

<u>Albuquerque-Bernalillo County Water Utility Authority Loans</u>. In the 2003 Regular Session, the New Mexico Legislature adopted legislation (Laws 2003, Chapter 437, codified as NMSA 1978, Section 72-1-10) creating the Albuquerque-Bernalillo County Water Utility Authority (the "ABCWUA") as a joint agency of the City of Albuquerque, New Mexico (the "City") and Bernalillo County. The ABCWUA is comprised of a board of three City Councilors, three County Commissioners and the Mayor of the City, which has jurisdiction over certain water facilities and properties (the "Water System") and certain sanitary sewer facilities and properties (the "Sewer System").

Pursuant to a Loan Agreement in the amount of $20,000,000 entered into on October 28, 2005 (the "2005 ABCWUA Loan Agreement") between the ABCWUA and the NMFA, the ABCWUA pledged to the NMFA, on a parity basis with other obligations of ABCWUA, water and sewer systems revenues for the purpose of: acquiring, constructing, extending, enlarging, bettering, repairing, replacing, equipping or otherwise improving the water/sewer system, water, wastewater system including expenses related to: regular system improvements, expansion, maintenance and upgrades to operate a water and wastewater utility pursuant to the basic capital program and diversion of surface water from the San Juan Chama and delivering it for use by current and future users of the system. The NMFA issued its Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005F to provide the funding for the 2005 ABCWUA Loan Agreement.

The NMFA will also use a portion of the proceeds of the Series 2007C Bonds to fund a loan pursuant to a loan agreement to ABCWUA in the amount of $77,005,000 (the "2007A ABCWUA Loan Agreement"). The NMFA also anticipates that it will make an additional loan to ABCWUA in November of 2007 in the amount of approximately $55,250,000[*] (the "2007B ABCWUA Loan Agreement"). ABCWUA plans to apply the proceeds of the 2007A ABCWUA Loan Agreement and the 2007B ABCWUA Loan Agreement to acquire certain capital improvements to its Water System and Sewer System. Payments under the 2007A ABCWUA Loan Agreement will be secured by net revenues of the Water and Sewer System on a parity with the 2005 ABCWUA Loan Agreement as well as certain other obligations of ABCWUA. Payments under the 2007B ABCWUA Loan Agreement will be secured by net revenues of the Water System and Sewer System on a subordinate basis to those payments under the 2007A ABCWUA Loan Agreement. A more detailed description of ABCWUA and its Water System and Sewer System, including certain pending litigation matters, are included in APPENDIX G hereto.

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[*] Preliminary; subject to change.

University of New Mexico—Subordinate Lien Cigarette Tax Bonds/UNM Health Sciences Center Project Bonds. On August 30, 2005, the NMFA issued its $23,630,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2005E. Proceeds from the sale of Series 2005E Bonds were primarily used by the NMFA to purchase Subordinate Lien Cigarette Tax Revenue Bonds (UNM Health Science Center Projects), Series 2005 (collectively, "the Subordinate Lien Cigarette Tax Revenue Bonds"). A portion of the proceeds of the Subordinate Lien Cigarette Tax Revenue Bonds will provide funds for improvements at the Health Science Center at the University of New Mexico in Albuquerque, New Mexico and a portion of the proceeds of the Subordinate Lien Cigarette Tax Revenue Bonds were used to refund a portion of the NMFA's Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate). The Subordinate Lien Cigarette Tax Bonds are payable from and secured by certain cigarette tax revenues required to be distributed to the NMFA on behalf of and for the benefit of the Health Science Center. As additional security for the Subordinate Lien Cigarette Tax Bonds, the NMFA has pledged, on a subordinate basis, the amounts on deposit in a credit enhancement account created by Section 6-21-6.7 NMSA 1978.

City of Santa Fe—Convention and Civic Center Loan. On March 28, 2006, the NMFA issued its $49,545,000 Subordinate Lien Public Project Revolving Fund Reserve Bonds, Series 2006A. A portion of the proceeds from the sale of the Series 2006A Bonds were used to finance the construction of a new Convention and Civic Center in the City of Santa Fe. The 72,000 square foot project will replace the existing Sweeney Convention Center and will nearly double the exhibit area floor space. The new Convention and Civic Center is expected to open in calendar year 2008. Pursuant to a Loan Agreement in the amount of $42,220,000 between the City of Santa Fe and the NMFA, the City of Santa Fe has pledged to the NMFA the City's Lodgers' Tax to the repayment of the loan.

Jicarilla Apache Water Utility Authority—Water Lease Revenues Loan. On November 7, 2006, the NMFA issued its $39,860,000 Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2006C. A portion of the proceeds from the sale of the Series 2006C Bonds were used to finance a loan to the Jicarilla Apache Tribal Utility Authority (the "JATUA").

Specifically, on August 11, 2006, the JATUA and the NMFA entered into a Loan Agreement pursuant to which the NMFA agreed to lend to the JATUA $21,650,229 for the purpose of constructing, purchasing and equipping portions of the water utilities system operated by JATUA. The NMFA and the Jicarilla Apache Nation also entered into an Agreement Regarding Loan pursuant to which the Nation pledged the moneys deposited to an account created for the deposit of all water lease revenues ("Water Lease Revenues") received from the various third parties that have entered into water leases with the Nation, whether now existing or subsequently entered into (the "Water Leases"), to the payment of principal, interest and administrative fees due under the Loan Agreement. The JATUA itself has pledged no security to make payments under the Loan Agreement.

To date, the Nation has executed eight Water Leases. These Water Leases generated approximately $2,855,822 of Water Lease Revenue for calendar year 2006. The Nation's two largest Water Leases are described below.

The Nation has a water lease of San Juan-Chama Project Contract Water to the City of Santa Fe (the "Santa Fe Lease") pursuant to which the Nation will lease 3,000 acre feet of water for $500 per acre foot per year with annual rate increases tied to the consumer price index and market changes. The Santa Fe Lease is terminable by the City for any reason with four years' prior written notice and five years of annual payments following notice of termination. The Nation also has an additional 3,500 acre feet of water available for long term lease to any third party for use in the Rio Grande Basin.

The Nation also has approved leases of Contract Water in the San Juan Basin. In the San Juan Basin, the Nation's largest lease is to the Public Service Company of New Mexico ("PNM") (the "PNM Lease"). Pursuant to the provisions of the PNM Lease, the Nation will lease 16,200 acre feet of water to PNM for $75 an acre foot a year with annual rate increases based on a calculated delivery rate (dollars per acre foot) set by the United States Bureau of Reclamation ("Reclamation") for Colorado River Storage Project contracts. The PNM Lease is terminable by PNM if PNM decides to deactivate, decommission or cease operation of all or a portion of the San Juan Generating Station. Thirty days' written notice is required. Liquidated damages require annual payment equal to that of the previous 12 months. The Nation also has an additional 8,500 acre feet available for long-term lease to any third party for use in the San Juan Basin.

APPENDIX G

INFORMATION REGARDING ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

Generally

The joint water and sewer system (the "System" or "Water System") that serves the City of Albuquerque (the "City") was owned by the City and operated by its Public Works Department prior to creation of the Albuquerque Bernalillo County Water Utility Authority ("ABCWUA"). Revenue bond obligations relating to the System issued by the City prior to the transfer of the System to ABCWUA continue to be outstanding and are now the obligation of ABCWUA. In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978, as amended), which created ABCWUA and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the System would be transferred to ABCWUA. The legislation also provides that the obligations of the City payable from net revenues of the System (the "Net Revenues") shall be obligations of ABCWUA and that ABCWUA shall not impair the rights of holders of outstanding obligations of the System. The City has transferred functions, appropriations, money records, equipment and other real and personal property pertaining to the System to ABCWUA and the policy-making functions of the System have been transferred to ABCWUA. Prior to July 1, 2007, ABCWUA and the City operated under a Memorandum of Understanding under which the City continued to operate the System. During the 2005 New Mexico Legislative Session, Section 72-1-10, NMSA 1978, was amended to provide ABCWUA the statutory powers provided to all public water and wastewater utilities in the state and recognized ABCWUA as a political subdivision of the State. The financial information in this Appendix has been provided by the City acting on behalf of ABCWUA unless otherwise noted.

Water System

The Water System provides water services to approximately 525,347 residents comprising approximately 88% of the residents of Bernalillo County, New Mexico (the "County"). About one-third of unincorporated County residents are customers of the Water System. Service is provided to approximately 170,060 accounts, including 152,840 residential and 17,220 multi-family, commercial, institutional and industrial accounts, as of June 30, 2006. Approximately 59% of the water sales are for residential uses.

Groundwater from the middle Rio Grande basin aquifer is presently the primary source of supply used for the Water System. The supply is produced from 93 wells grouped in 25 well fields located throughout the metropolitan area. Total well production capacity is approximately 294 million gallons per day ("MGD"). Maximum historical peak day demand is 214 MGD. A chlorination/fluoridation station associated with each well field satisfies the total required water treatment needs for the water produced in each well field.

Ground storage reservoirs provide for fire, peak hour and uphill transfer storage. Water is distributed from higher to lower elevations through a 115-foot vertical height pressure zone to provide minimum static pressures of 50 psi for consumers. Forty-five reservoirs are located throughout the service area, with a total reservoir storage capacity of 211 million gallons. If demand requires, reservoir water can also be transferred uphill through a pressure zone to the next highest reservoir or in an east-west series of reservoirs by means of pump stations sited at the reservoirs. There are a total of 110 boosters, with a total capacity of 680 MGD, available for water transfers between reservoirs. These reservoirs are interconnected by over 2,500 miles of pipelines and are situated at various locations east and west of the service area to provide multiple sources of supply to customers and for operating economies. The Water System takes advantage of the unique topography of ABCWUA's service area which allows ground level storage while simultaneously providing system pressure by gravity. Control of the Water System is provided by remote telemetry units distributed throughout the System for control from a central control facility.

Water Supply

Existing Water Resources.

The New Mexico Office of the State Engineer granted the 1993 application of the City's Water Utility Department (the "Utility") to appropriate ground water in the Middle Rio Grande Administrative Area on September 4, 2003. This water right permit allows the withdrawal of ground water from the aquifer in the amount of up to 155,000 acre-feet per annum as follows:

Years	Annual Diversion Limit (acre-feet)
Thru 2015	132,100
2016 thru 2029	142,900
2030 and thereafter	155,000

The previous ground water permit limited ABCWUA's pumping to 132,000 acre-feet per year. The new permit is governed by the Middle Rio Grande Administrative Area Guidelines for Review of Water Rights Applications.

The average annual withdrawal for the five years ending in Calendar Year 2005 was 105,710 acre-feet, with a maximum of 110,908 acre-feet in Fiscal Year 2000. Additionally, ABCWUA has the right to use consumptively 72,820 acre-feet of water per year. This figure consists of imported water from a contract with the Secretary of the Interior for 48,200 acre-feet per year from the San Juan-Chama Drinking Water Project, vested water rights of 17,875 acre-feet from the New Mexico State Engineer's Rio Grande Basin declaration in 1956, and other water rights totaling 6,745 acre-feet. By means of its program of water rights acquisition, ABCWUA continues to increase its holdings each year. In addition to the annual delivery contract for 48,200 acre-feet of San Juan-Chama water, ABCWUA also has approximately 145,000 acre-feet of San Juan-Chama water from prior year deliveries stored in reservoirs located in northern New Mexico. In July 2003, the Utility began diversions of surface water from the San Juan-Chama River under the Non-Potable Surface Water Reuse Project. The total surface water diversions for 2005 were 1,883 acre-feet with an average of 769 acre-feet over 2003 and 2004. Therefore, in 2005, ABCWUA's water resources use consisted of 98% from ground water and 2% from San Juan-Chama surface water.

ABCWUA believes that water received pursuant to the contract for San Juan-Chama water and the rights to Rio Grande Basin water will be sufficient to support, in perpetuity, a population of more than 900,000 using 150 gallons per capita per day with 50% consumptive use and 50% return flow. Alternatively, these same water resources will support a population of 500,000 using water at the rate of 250 gallons per person per day. The current service population is approximately 525,000, and the current usage is approximately 174 gallons per capita per day, down from an average of 250 gallons per capita per day between 1987 through 1993. ABCWUA believes this decrease can be attributed to the City's "Water Conservation Program" and the "Ground Water Protection Plan," both initiated in 1994.

New Mexico Utilities Litigation.

New Mexico Utilities ("NMU"), a for-profit water and sewer carrier, serves approximately 17,000 residents located in northwest Albuquerque. On July 1, 2004, ABCWUA increased the sewer rates charged to NMU based on a rate study that concluded that (1) NMU was not paying its cost of service for sewer services, and (2) City and County residents were subsidizing the sewer rates paid by NMU. ABCWUA believed the rate disparity put an unfair burden on some residents in the City and County which could be alleviated through the rate increase. ABCWUA also withdrew its permission to allow NMU to use certain ABCWUA return flow credits. ABCWUA, and the City as its predecessor, earned return flow credits through the release of treated wastewater into the water system (the Rio Grande River). NMU responded with a lawsuit against ABCWUA seeking restoration of the previous sewer rates and restoration of return flow credits which ABCWUA had suspended, which lawsuit remains pending in New Mexico State District Court. During the pendency of its lawsuit with ABCWUA, NMU has refused to pay the higher rate and currently owes an outstanding balance of approximately $4,200,000 in delinquent fees to ABCWUA. In response to the delinquency, ABCWUA filed various counterclaims seeking a court declaration that NMU has illegally withheld the funds. Dispositive motions were heard by the Court on April 26, 2007. On May 2, 2007, the court issued a Letter Decision finding in favor of ABCWUA's position that NMU owed the delinquent sums. The Letter Decision also denied all motions regarding return flow credits. On May 18, 2007, NMU filed a motion requesting the Court to reconsider its decision. A hearing is set for October 2007 on the motion to reconsider.

On January 19, 2007, ABCWUA and the City of Rio Rancho, New Mexico filed a lawsuit in State District Court to acquire NMU. NMU answered the lawsuit, filed several dispositive motions and countersued ABCWUA. NMU motions sought the dismissal of the case on the basis that ABCWUA was not lawfully created, neither Rio Rancho nor ABCWUA had sufficient powers to acquire NMU and that negotiations conducted in an attempt to acquire NMU were not conducted in good faith. Rio Rancho and ABCWUA responded to the motions and filed additional dispositive motions seeking declarations concerning their respective acquisition authority and the good faith negotiation efforts. A hearing was held on the majority of the motions on May 30, 2007. On July 18, 2007, the Court issued its Decision and Order denying all NMU motions and granting ABCWUA's cross motion requesting a finding that negotiations had been conducted in good faith. The State District Court found that ABCWUA was lawfully created and that ABCWUA and Rio Rancho had the legal authority to acquire NMU. NMU filed a motion subsequent to the Decision and Order requesting the State District Court to forward the matter directly to an appellate court. The later motion has not been set for hearing. NMU's counterclaim against ABCWUA alleges ABCWUA violated its due process rights in its efforts to acquire NMU. Given the State District Court's ruling on the motions, the only remaining issue before the court, the value of NMU, could be set for trial in early 2008. However, the issues decided in the Decision and Order of the District Court denying NMU's Motion are subject to appeal by NMU and will likely be decided ultimately by an appellate court.

New Arsenic Standard Applicable to Water Supply.

The United States Environmental Protection Agency ("EPA") promulgated new regulations in 2001 reducing the allowable amount of arsenic in municipal drinking water from 50 parts per billion to 10 parts per billion. When EPA adopted the new standard, Congress allowed for large water systems the opportunity to apply for a maximum three year exemption. ABCWUA applied for and was granted a three year exemption by the New Mexico Environment Department and must comply with the new standard at the end of 2008. A public hearing is required and has not been currently scheduled. This public hearing is to address any public concerns and for educational purposes and will not result in a loss of the three year exemption. Another key component for ABCWUA's exemption is to maintain arsenic levels at or below 35 parts per billion on a system-wide blended basis from 2001 until 2009. This effort has increased operating costs due to the need to pump different wells during peak periods for electrical rates.

Two projects are planned to comply with the new arsenic standard. The first and most important is the San Juan-Chama Drinking Water Project. This project is under construction and is expected to be operational in 2008. Several segments of the transmission pipelines in combination with the high service pump station at the water treatment plant will be operational in late 2007 to move lower arsenic concentration ground water from the east side of the Rio Grande to provide service on the west side of the Rio Grande. A portion of the proceeds of the 2007A ABCWUA Loan Agreement will be used to finance the costs of the aforementioned project. The second project is the College Arsenic Demonstration project which has been designed, bid and is currently under construction. The facility will begin operations in fall 2007. Total arsenic removal treatment capacity for the College project will be approximately 5 million gallons per day.

Because of diversion limitations placed by the State Engineer on the San Juan-Chama Drinking Water Project, additional arsenic removal treatment systems to remove arsenic from ABCWUA's existing facilities or other production facilities with lower arsenic water may be needed to meet demand in the future.

Water Usage.

The Water System serves consumers inside and outside of the City limits. The consumers served outside the City limits constitute approximately 10% of total consumers served. Well pumps are presently producing at 150 to 1,000 feet depths. Their yields range from about 500 gallons per minute to more than 3,700 gallons per minute. During the past five Fiscal Years, the Water System has supplied the following to customers within the service area:

Usage[(1)]
2002-2006

Fiscal Year	Gallons Pumped (in 000s)	Gallons Billed (in 000s)	Percentage Billed
2002	36,004,000	32,050,716	89.02%
2003	33,275,540	29,444,060	88.49
2004	34,851,000	31,042,958	89.07
2005	31,526,000	28,594,347	90.70
2006	34,174,000	30,700,300	89.84

(1) There is a difference between gallons pumped and gallons billed. Gallons which are pumped but not billed include certain accounts billed on the basis of estimated usage, amounts lost due to line leakage and breakage, and fire protection usage which is not metered. The fire protection usage is not metered but is built into the rate covenant for the System and is not considered a free use.

(Source: City of Albuquerque and ABCWUA.)

The top ten customers of the Water System are as follows:

Water System Top Ten Customers

Customer Name	Consumption Rate (Kgal)	Total Collected 2005 Revenue	% of Total Revenue
1. City of Albuquerque	649,754	$3,960,072	5.03%
2. Albuquerque Public Schools	391,905	1,323,703	1.68
3. Tanoan County Club	237,526	467,234	0.59
4. University of New Mexico Physical Plant	160,344	563,406	0.72
5. Balloon Fiesta Park	92,477	146,984	0.19
6. Sumitomo Sitix	75,875	401,495	0.51
7. Sun Village Apartments	73,476	134,994	0.17
8. General Mills	69,910	141,609	0.18
9. Tri-Gas	68,114	220,304	0.28
10. New Mexico State Fairgrounds	66,645	168,950	0.21
Total		7,528,751	9.57
Total Revenue for System		$78,704,817	

(Source: ABCWUA.)

Sewer System

The Sewer System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows by gravity to the Southside Water Reclamation Plant located south of the service area. The treatment plant provides preliminary screening, grit removal, primary clarification and sludge removal, advanced secondary treatment including ammonia and nitrogen removal, final clarification, and effluent chlorination and dechlorination prior to discharge to the Rio Grande River.

Treatment plant capacity is based upon 76 MGD hydraulic capacity. However, capacity deficiency at the chlorination/dechlorination, anaerobic digestion and dewatered sludge handling facilities needs to be addressed to bring these facilities to the 76 MGD plant hydraulic capacity. Existing flows at the plant are about 54 MGD. ABCWUA has an operational industrial pretreatment program approved by the United States Environmental Protection Agency. In 2004, ABCWUA's pretreatment program successfully completed the EPA's five year pilot program. The EPA recognized that ABCWUA's pollution prevention efforts have been largely responsible for ABCWUA maintaining compliance with strict standards contained in National Pollution Discharge Elimination System ("NPDES") permits. ABCWUA's wastewater effluent discharge consistently meets all NPDES permit requirements. The EPA renewed ABCWUA's NPDES permit in May 2005, which is effective for the next 3 years.

The treatment plant has a 6.6 mega-watt cogeneration facility. This facility supplies 100% of the treatment plant's present electrical needs, along with providing heating of various buildings and sludge digesters. The engines are fueled by methane produced in the digesters and by natural gas purchased through a contract carrier. The Southside Water Reclamation Plant currently generates electricity from the bio-gas produced in the digesters. This is no cost gas that qualifies the electricity generated for Renewable Energy Certificates (REC). These certificates have a value to other electrical energy producers and ABCWUA in Fiscal Year 2008 intends to sell its REC's to increase revenue.

Total beneficial reuse of sludge is accomplished by a combination of land application on 5,000 acres of public-private range land (85% of sludge produced) and production of compost (15% of sludge produced). A 660-acre dedicated land application site is used when beneficial reuse options are unavailable (for example, when the range land site is snow-covered). Plans are to increase the amount of solids that are composted and sold to increase revenue, and work cooperatively with Forrest Energy, a wood pellet manufacturer, to increase the amount of compost. ABCWUA also plans to reduce expenses by analyzing all of the bacteriological samples from the Water Systems Division at ABCWUA's internal Water Quality Lab. ABCWUA's Water Reclamation Division operates a water quality laboratory, providing analytical support for process control and regulatory compliance for wastewater, drinking water, groundwater, storm water, surface water, the zoological park, residuals management and environmental health programs. The laboratory is internationally accredited under International Standards Organization Standard 17025 for inorganic chemistry and microbiology testing.

The following table sets forth the quantity of water treated and customers served through the Sewer System:

Treated Water
2002-2006

Fiscal Year	Gallons Treated (in 000s)	Average # of Customers
2002	19,308,500	147,787
2003	19,016,500	151,451
2004	21,133,500	155,325
2005	20,476,500	158,995
2006	19,746,500	165,949

(Source: City of Albuquerque and ABCWUA.)

The top ten customers of the Sewer System are as follows:

Sewer System Top Ten Customers

Customer Name	Consumption Rate (Kgal)	Total Collected 2005 Revenue	% of Total Revenue
1. New Mexico Utilities	1,748,131	$2,375,551	5.02%
2. Kirtland Air Force Base	777,233	1,063,253	2.25
3. University of New Mexico Physical Plant	214,418	215,946	0.46
4. Sandia Heights	64,953	65,728	0.14
5. Rio Grande Zoo	64,632	152,768	0.32
6. University of New Mexico Hospital	51,833	124,800	0.26
7. Creamland Dairies	42,848	72,489	0.15
8. Four Hills Mobile Home Park	39,336	78,484	0.17
9. Public Service Company of New Mexico	35,360	96,600	0.20
10. Sumitomo Sitix	29,453	54,562	0.12
Total		4,300,181	9.09
Total Revenue for System		$47,310,366	

(Source: ABCWUA.)

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Outstanding System Obligations

Outstanding Parity Obligations.

The 2007A ABCWUA Loan Agreement will be issued with a lien on Net Revenues that is on parity with the lien on Net Revenues of the following obligations (the "Outstanding Parity Obligations"):

Outstanding Water/Sewer Parity Obligations

		Outstanding Principal Amount
Revenue Bonds, Series 1990A(2)	$50,821,710	$26,033,730
Revenue Bonds, Series 1997	46,715,000	9,155,000
Refunding and Improvement Revenue Bonds, Series 1999A	93,030,000	44,195,000
Revenue Bonds, Series 2001	30,000,000	21,205,000
NMFA – Public Project Revolving Fund Loan (2002)	450,000	287,513
NMFA Drinking Water State Revolving Fund Loan (2002)	2,450,000	1,540,236
NMFA Drinking Water State Revolving Fund Loan (2003)	3,600,000	2,493,930
NMFA – Public Project Revolving Fund Loan (2004)	118,415.000	108,265,000
NMFA – Public Project Revolving Fund Loan (2005)	20,000,000	20,000,000
Revenue Bonds, Series 2005	132,985,000	132,985,000
Revenue Bonds, Series 2006A	133,390,000	133,390,000
Total Water/Sewer System Parity Obligations		$499,550,409

(1) Certain of these bonds are also subject to mandatory sinking fund redemption at par on the dates and otherwise as described in the bond documents relating to such bonds.

(2) These bonds were issued as capital appreciation bonds and the amount shown as outstanding is the accreted value as of July 1, 2007.

(Source: ABCWUA.)

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Other obligations payable on a subordinate basis from Net Revenues are shown below.

Subordinate Obligations
Payable from Water/Sewer System Revenues
as of July 1, 2007

Obligation	Principal Amount of Original Issue	Outstanding Principal Amount
Wastewater Loans from the State Environment Department:		
November 1989 Loan	$7,907,582	$3,079,564
November 1991 Loan	2,521,846	270,979
November 1992 Loan	9,000,000	967,075
August 1995 Line of Credit	14,900,000	7,067,835
June 2002 Loan	9,627,877	8,900,511
2007B NMFA Loan[2]	55,250,000	55,250,000
Total Wastewater Loans		$75,535,964[1]

(1) Excludes a $12,000,000 drinking water loan with the New Mexico Finance Authority which ABCWUA's governing body has authorized but has not yet closed. The drinking water loan has not closed pending required environmental review and project completion which is anticipated to be 2008.

(2) Expected to be incurred during November 2007. Preliminary; subject to change.

(Source: ABCWUA.)

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ABCWUA has agreed to charge all purchasers of services of ABCWUA such reasonable rates as are sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on the 2007A NMFA Loan Agreement, other Outstanding Parity Obligations and all other system obligations (excluding reserves therefor) as described in "Rate Covenant" under this caption.

The following table shows, for each of the fiscal years shown, the ratio of the approximate Net Revenues in each year to the actual debt service requirements that have been payable in such years in connection with the outstanding obligations.

Historical Coverage Ratios
for System Obligations

	Fiscal Year Ended June 30				
	Pledged Revenues				
	2002	2003	2004	2005	2006[1]
Operating Revenues	$115,272,000	$119,515,000	$133,369,000	$127,309,000	$133,054,116
Non-Operating Revenues (Expenses)					
Interest	2,047,000	1,684,000	1,635,000	3,655,000	7,346,115
Utility Expansion Charges	11,909,000	14,433,000	15,112,000	12,404,000	17,254,474
Other	197,000	4,304,000	108,000	706,000	84,101
Total Adjusted Revenues	129,425,000	139,936,000	150,224,000	144,074,000	157,738,806
Total Operating Expenses	$100,496,000	$103,786,000	$102,678,000	$110,700,000	$118,440,568
Less:					
Payment in lieu of taxes	(4,643,000)	(4,779,000)	(5,111,000)	(4,769,000)	(5,202,896)
Depreciation	(39,355,000)	(40,844,000)	(42,877,000)	(42,409,000)	(51,934,000)
Amortization	(1,142,000)	(849,000)	(598,000)	(517,000)	(383,000)
Total Adjusted Operating Expenses	$55,356,000	$57,314,000	$ 54,092,000	$ 59,005,000	$60,920,672
Net Revenues Available for DS	$74,069,000	$82,622,000	$96,132,000	$85,069,000	$96,818,134
Senior DS Requirements	$42,643,228	$42,446,858	$42,202,627	$46,622,729	$51,609,465
Senior DS Coverage	1.74	1.95	2.28	1.82	1.88
Subordinate DS Requirements	$3,145,541	$3,145,541	$3,145,541	$3,363,319	$4,031,053
Subordinate DS Coverage	1.62	1.81	2.12	1.70	1.74

[1] Unaudited.
(Source: City of Albuquerque and ABCWUA.)

Financial Information

Balance Sheet.

The following table is the historical audited balance sheet for the System as operated by the City, as predecessor to ABCWUA, and for ABCWUA. Although portions of this table were taken from audited financial statements, this table itself is unaudited.

			FY Ending June 30		
	2002[(1)]	2003[(1)]	2004[(2)]	2005[(2)]	2006[(3)]
Assets					
Current Assets					
Cash and investments	$11,376,071	$54,025,631	$16,361,548	$5,474,412	$26,766,770
Cash with fiscal agents held for debt service	–	–	37,850,496	38,773,489	39,461,690
Accounts Receivable	17,451,568	9,144,195	11,003,191	10,222,303	10,226,675
Due from other governments	–	–	3,155,052	155,929	1,991,554
Notes Receivable	–	1,474,098	1,769,553	7,865,414	1,213,410
Total Current Assets	28,827,639	64,643,924	70,139,840	62,491,547	79,660,099
Non-Current Notes Receivable	$	$7,286,844	$7,154,659	$ –	$7,705,710
Restricted Assets					
Cash and investments	36,154,248	6,548,929	43,477,632	114,129,222	91,339,646
Cash with fiscal agents	40,156,598	37,099,152	4,811,537	–	–
Investment with fiscal agent	–	4,984,544	–	–	1,337,211
Due from other governments	–	1,468,014	–	–	–
Accounts Receivable	513,474	–	–	–	–
Escrow deposits	142,497	143,842	144,491	145,398	146,492
Total Restricted Assets	$ 76,966,817	$ 50,244,481	$ 48,433,660	$114,274,620	$92,823,349
Capital Assets					
Net Capital Assets	$649,729,052	$641,815,275	$659,071,660	$672,472,679	$808,972,817
Construction work in progress	27,595,615	42,050,839	74,202,089	179,607,263	179,561,893
Total Capital Assets	$677,324,667	$683,866,114	$733,273,749	$852,079,942	$988,534,710
Deferred Charges					
Capitalized Bond issuance costs	$ 540,462	$ 577,999	$ 447,967	$1,138,163	$2,457,503
Purchased water rights	27,112,946	27,943,094	28,536,580	28,230,879	29,077,022
Total Deferred Charges	$ 27,653,408	$ 28,521,093	$ 28,984,547	$29,369,042	$31,531,166
Total Assets	$810,772,531	$834,562,456	$887,986,455	$1,058,215,151	$1,200,255,034

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Liabilities					
Current Liabilities					
Accounts payable	$2,353,529	$2,985,977	$4,141,437	$3,274,499	$2,125,897
Line of Credit	–	–	8,629,827	9,385,222	–
Accrued employee compensation	1,776,707	2,842,598	3,072,266	2,693,337	2,469,582
Accrued interest	545,918	526,918	507,400	729,942	–
Deposits	193,695	205,147	214,827	408,519	701,627
Current portion of water rights	3,384,676	768,932	–	–	466,562
Total Current Liabilities	$8,254,525	$7,329,572	$16,565,757	$16,491,519	$5,763,678
Liabilities from Restricted Assets					
Construction contracts	1,788,606	5,279,951	6,288,277	15,216,974	23,260,967
Retainage	294,357	–	–	–	–
Matured bonds and interest	31,160,000	31,771,552	32,695,000	32,719,473	35,375,416
Accrued vacation and sick leave pay	730,530	586,600	–	–	–
Water rights and loan agreements	–	–	1,271,152	816,489	502,526
Accrued Interest	6,096,370	5,341,600	4,676,698	5,410,448	8,177,630
Line of Credit	–	3,484,446	–	–	–
Other	30,564	–	–	–	–
Total Liabilities from Restricted Assets	$ 40,100,427	$ 46,464,149	$ 44,931,127	$54,163,384	$67,316,542
Long-Term Debt Excluding Current Portion					
Revenue Bonds	240,843,254	211,357,665	180,493,569	149,965,322	257,608,339
Water right contracts and loan agreements	45,752,329	48,575,147	44,747,408	156,190,634	173,819,516
Total Long-Term Debt	$286,595,583	$259,932,812	$225,240,977	$306,155,956	$431,427,855
Other Liabilities					
Deferred revenue	1,507,030	1,175,191	600,000	500,000	877,107
Accrued vacation and sick leave	–	–	548,722	–	653,124
Advanced from other funds	–	–	–	–	–
Total Other Liabilities	1,507,030	1,175,191	1,148,722	500,000	1,530,231
Total Liabilities	$336,457,565	$314,901,724	$287,886,583	$377,310,859	$506,038,303
Fund Equity					
Contributed capital	409,080,380	446,162,225	517,181,729	594,301,043	609,954,619
Retained earnings					
Reserved for revenue bonds retirement	5,730,725	6,441,513	–	–	–
Reserved for construction	–	–	17,576,362	31,974,859	55,395,837
Reserved for revenue bonds debt service	11,416,968	15,742,696	10,393,256	11,258,168	12,919,005
Unreserved	48,086,893	51,314,298	54,948,525	43,370,222	65,803,570
Total Fund Equity	474,314,966	519,660,732	600,099,872	680,904,292	694,216,731
Total Liabilities and Fund Equity	$810,772,531	$834,562,456	$887,986,455	$1,058,215,151	$1,200,255,034

(1) City of Albuquerque Comprehensive Annual Financial Report.
(2) ABCWUA Comprehensive Annual Financial Report.
(3) ABCWUA (unaudited).

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Revenues and Expenditures.

The following table shows the historical audited revenues and expenditures for the System as operated by the City, as predecessor to ABCWUA, and for ABCWUA. Although portions of this table were taken from audited financial statements, this table itself is unaudited.

	FY Ending June 30				
	2002	2003	2004	2005	2006[2]
Operating Revenues					
Charges for services	$113,780,763	$117,681,329	$132,060,824	$126,622,183	$138,202,390
Operating Expenses					
Salaries and fringe benefits	$ 25,432,730	$ 24,760,183	$ 25,478,834	$26,796,490	$27,199,667
Professional services	3,950,668	5,553,843	387,754	1,138,803	522,423
Utilities	7,581,349	7,923,571	8,306,219	7,935,163	8,575,409
Supplies	1,306,521	1,528,551	2,425,458	2,939,223	3,566,957
Travel	12,967	5,171	26,257	23,809	19,404
Fuels, repairs and maintenance	7,168,651	7,523,882	7,386,781	7,252,222	7,321,814
Contractual services	3,144,879	2,949,505	3,884,875	4,422,260	2,907,072
Other operating expenses	5,780,796	5,687,026	12,498,494	12,908,751	14,057,616
Payment in lieu of taxes	–	–	–	–	–
Depreciation	39,355,206	40,843,474	42,877,076	46,409,458	51,933,636
Amortization	348,400	457,590	369,939	374,323	382,882
Bad debt expense	597,741	34,703	-	-	–
Total Expenses	$94,679,908	$ 97,267,499	$103,641,687	$110,200,502	$116,486,880
Operating Income	19,100,855	20,413,830	28,419,137	16,421,681	21,715,510
Non-operating revenues (expenses)					
Interest on investments	2,031,573	1,073,204	419,021	1,548,942	5,019,000
Gain on disposition of capital assets	66,375	18,869	10,001	(356,719)	6,572
Interest expense	(12,205,596)	(12,278,016)	(10,428,174)	(8,405,571)	(8,618,687)
Water service expansion charges	11,908,616	14,432,966	15,111,935	12,404,189	17,254,474
Bond Issue amortization & expenses incurred for outside agencies	-	(332,631)	(242,141)	(303,347)	(312,953)
Other	148,181	4,451,529	(222,513)	1,389,894	292,379
Total non-operating income	$1,949,149	$7,365,921	$4,648,129	$6,277,388	$13,640,785
Income before contribution and transfers	21,050,004	27,779,751	33,067,266	22,699,069	35,356,295
Capital contributions	$14,995,201	$22,177,697	$28,287,786	$20,848,605	$16,853,909
Transfers in	360,551	487,245	–	–	
Transfers out	(4,962,497)	(5,098,927)	–	–	
Change in Net Assets	31,443,259	45,345,766	61,355,052	43,547,674	52,210,204
Decrease in reserve for revenue bonds	–	–	–	–	
Net Assets July 1	$442,871,707	$474,314,966	$538,744,820[1]	$598,458,853	$642,006,527
Net Assets June 30	$474,314,966	$519,660,732	$600,099,872	$642,006,527	$694,216,731

(1) Includes prior period adjustment related to Utility Expansion Charges.
(2) Unaudited.
(Source: City of Albuquerque and ABCWUA.)

Utility Expansion Charges

In order to fund expanded capacity of the System, all new customers of the System are currently charged one-time utility expansion charges ("UECs") for water and sewer services.

The following table sets forth the current water and sewer utility expansion charges, as well as those approved in the future.

Current Utility Expansion Charges

Meter Size	Water Charge	Sewer Charge
¾"	$ 2,421	$ 1,816
1"	4,036	3,027
1 ½"	8,071	6,053
2"	12,914	9,685
3"	25,827	19,370
4"	40,355	30,265
6"	80,710	60,530
8" & over	129,137	96,848

During Fiscal Years 2002 through 2006, the following revenue from the collection of UECs was received.

Revenue from Utility Expansion Charges

Fiscal Year	Total UEC Revenues
2002[(1)]	$11,908,616
2003[(1)]	14,432,966
2004[(2)]	15,321,455
2005[(2)]	12,404,189
2006[(3)]	17,228,291

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(1) City of Albuquerque Comprehensive Annual Financial Reports.
(2) ABCWUA Comprehensive Annual Financial Report.
(3) ABCWUA (unaudited).

ABCWUA policy requires that expansion or improvement of the System for development purposes be at no net expense to ABCWUA. Revenues generated from the expansion of the System must be sufficient to support the costs of water and wastewater facilities and the related infrastructure. The facilities constructed must meet the level of service standards agreed upon between the developer and ABCWUA in the applicable development agreement. Increased revenues should correlate to the additional operational and maintenance expenses for the System expansion. The developer bears the risk and expense for any revenue shortfall related to the System expansion.

Additional Charges In Effect

The following variable charges which became effective on July 1, 2006 are in effect for all accounts to which the specific criteria for each charge apply: Water Commodity Charge: Water usage metered or estimated is at a rate of $1.4094 per unit (1 unit = 100 cubic feet or 748 gallons).

Water Conservation Charge: Annually, the average water usage for the months of December through March is calculated and used in determining the surcharge during the months of April through October. In May 2002, a two-tiered surcharge was implemented. Beginning January 2006, the surcharge amount added for each unit exceeding 300% of the customer's individual winter mean water usage is equal to 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the State and the sustainable water supply charge per unit. Beginning January 2006, a second tier surcharge for each unit exceeding 400% of the customer's individual winter mean water usage is equal to 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the state and the sustainable water supply charge per unit.

Sewer Commodity Charge which became effective on January 1, 2006: All wastewater discharged is charged at a rate of $0.822 per unit for residential, commercial, industrial and institutional customers and $0.579 per unit for wholesale customers based on either 95% of the average metered or estimated volume of water for the previous winter months of December through March, or based on 95% of the actual water used if that amount is less.

Rate Comparisons

ABCWUA continues to keep water and sewer rates at a competitive level. Based on results for the bill comparisons for selected U.S. cities, completed in February 2006, extracted from a water/wastewater survey by the City of Austin Texas Water Utility, ABCWUA was ranked (from lowest to highest) at or below average for water and sewer rates, 10th for water and 6th for sewer, of the 28 communities surveyed on typical monthly combined residential water and sewer bills, based upon a usage of 8,500 gallons for water and 5,000 gallons for sewer.

Water/Sewer Billing and Collections

ABCWUA imposes all rates and charges through a water and sewer rate ordinance. Charges are billed to the property and are the responsibility of the property owner (except in cases of leased property for which ABCWUA is notified that the tenant will have payment responsibility). Property liens may be filed and foreclosed as provided by State law.

ABCWUA performs all meter reading services in connection with the System. Meters are read and billed once each month. Customers are billed within the same approximate time frame each month depending upon the location of the customer. Customers are billed the same day their meters are read. The payment is delinquent if not made within 15 days following the due date on a utility statement. ABCWUA may cause the water supply to be turned off and discontinue service to the property if any charge remains unpaid for a period of 30 days from the original due date on the customer's utility statement. A penalty of 1.5% per month may be imposed on any delinquent account.

ABCWUA has made efforts to reduce delinquencies through aggressive collection attempts with changes in the method of assigning turn-off crews work assignments and the use of a check collection vendor. The delinquency rate has typically been less than 1.2% but currently is approximately 3.40% of annual revenues. The increase is due to one large customer, New Mexico Utilities, which is disputing certain charges and has made no payment of the disputed charges. The delinquent charges from this customer are 1% of annual revenues. ABCWUA is currently trying to obtain payment from this customer through the judicial process. See "JOINT WATER AND SANITARY SEWER SYSTEM OF ABCWUA – Water Supply – New Mexico Utilities Litigation."

Rates and Charges of the System

Customers pay fixed rates for water and sewer services as well as additional charges which vary depending on the volume of water used or discharged. Effective January 1, 2006 residential customers pay fixed water rates (depending on service size) between $11.41 and $2,168.77, while commercial customers pay between $11.93 and $2,249.77. For sewer service effective January 1, 2006 residential customers pay a fixed sewer rate (depending on service size) between $7.49 and $834.31, while commercial customers pay between $9.26 and $1,059.87.

Increases to Rates and Charges.

ABCWUA has increased System rates and charges by the following percentage increases during the past five Fiscal Years as described below:

Approved Increases in Rates and Charges

	% Increase		
Fiscal Year	General Operations	WRMS[1]	Franchise Fee
2003	4.4	4.5	
2004	4.5	4.5	
2005	0	0	
2006	0	0	
2007[2]	1.0	0	4.0

(1) Each effective May 1 of the respective years. These rates were approved to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy and affect water charges only.
(2) Effective July 1, 2006.
(Source: City of Albuquerque and ABCWUA.)

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Customer Information

The following tables set forth historical information regarding the average number of customers of the Water System by meter size and class during Fiscal Years 2002 through 2006. The majority of the customers of the Water System during Fiscal Year 2006 were residential and used a 3/4" meter size.

History of Water Users by Meter Sizes

	Average Number of Customers by Fiscal Year				
Meter Size	2002	2003	2004	2005	2006
¾"	128,192	132,387	139,351	142,018	146,843
1" and 1 ¼"	19,153	18,321	17,863	17,588	17,773
1 ½"	1,854	1,847	1,854	1,879	1,945
2"	1,892	1,905	1,958	1,997	2,509
3"	410	412	524	419	654
4"	246	247	311	251	244
6"	55	55	73	52	52
8" and over	38	39	68	41	41
Total	151,840	155,213	162,002	164,245	170,060

(Source: City of Albuquerque and ABCWUA.)

History of Water Users by Class

	Average Number of Customers by Fiscal Year				
Class	2002	2003	2004	2005	2006
Residential	137,081	140,347	146,656	148,974	152,841
Multi-Family					1,900
Commercial	12,952	13,033	13,388	13,304	13,241
Institutional	1,683	1,712	1,836	1,853	1,968
Industrial	124	121	122	114	110
Total	151,840	155,213	162,002	164,245	170,060

(Source: City of Albuquerque and ABCWUA.)

According to ABCWUA's records for Fiscal Year 2005, the top ten retail customers of the System in the aggregate accounted for no more than 4.9% of the total billed consumption for the Water System, 9.3% of the total revenue of the Water System, 8.3% of the total billed consumption for the Sewer System and 8.7% of the total revenue of the Sewer System.

During Fiscal Year 2006, 56% of billed water consumption was residential, while 29% was classified as commercial. The balance consisted of multi-family users consuming 2%, institutional users consuming 12% and industrial users at 1%.

Selected Water/Sewer System Statistics
(Calendar Year)

	2002	2003	2004	2005
Estimated Population (Service Area)	508,855	513,488	518,623	525,347
Number of Meters Billed	156,502	160,135	162,536	167,737
Estimated Persons Per Meter	3.25	3.21	3.19	3.13
Annual Pumpage (1,000 Gallons)	34,760,000	34,734,000	32,600,000	32,799,000
Annual Water Billed (1,000 Gallons)	30,836,908	30,886,343	29,235,684	29,551,899
Average Daily Pumpage (Gallons)	95,232,877	95,161,644	89,315,068	89,860,274
Peak Day Pumpage (Gallons)	160,140,000	163,500,000	151,000,000	153,500,000
Average Daily Production Per Meter (Gallons)	609	594	549	536
Well Pumping Capacity (per 24 Hour Period)	294,000,000	294,000,000	294,000,000	294,000,000
Storage Capacity (Gallons)	211,000,000	211,000,000	211,000,000	211,000,000
Number of Miles of Lines(1)				
Water	2,520	2,520	2,520	2,520
Sewer	1,820	1,820	1,820	1,820

(1) Estimated.

(Source: City of Albuquerque and ABCWUA.)

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APPENDIX H

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 2007C 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 2007C 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 2002-2003 Through 2006-07 (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;

- 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;

- 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 2007C 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 2007C Bonds;

- modification of rights of security holders;

- bond calls;

- defeasances;
- release, substitution, or sale of property securing repayment of the Series 2007C 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 2007C 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.

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APPENDIX I

FORM OF SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: _______________________________
Assistant Secretary

STD-R-7
01/05

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NEW MEXICO FINANCE AUTHORITY • SUBORDINATE LIEN PUBLIC PROJECT REVOLVING FUND REVENUE BONDS, SERIES 2007C

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