

APPENDIX A

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

**NEW MEXICO FINANCE
AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2003

NEW MEXICO FINANCE AUTHORITY

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NEW MEXICO FINANCE AUTHORITY

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NEW MEXICO FINANCE AUTHORITY
JUNE 30, 2003

Official Roster

Governing Board

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

Executive Director

David W. Harris

Chief Financial Officer

Keith H. Mellor

Controller

Joe Gosline



Independent Auditors' Report

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

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

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

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

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

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

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

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

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

HIGHLIGHTS

Financial Highlights

Statement of Net Assets (see table 1)

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

Statement of Activities (see table 2)

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

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

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

NMFA Highlights

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

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

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

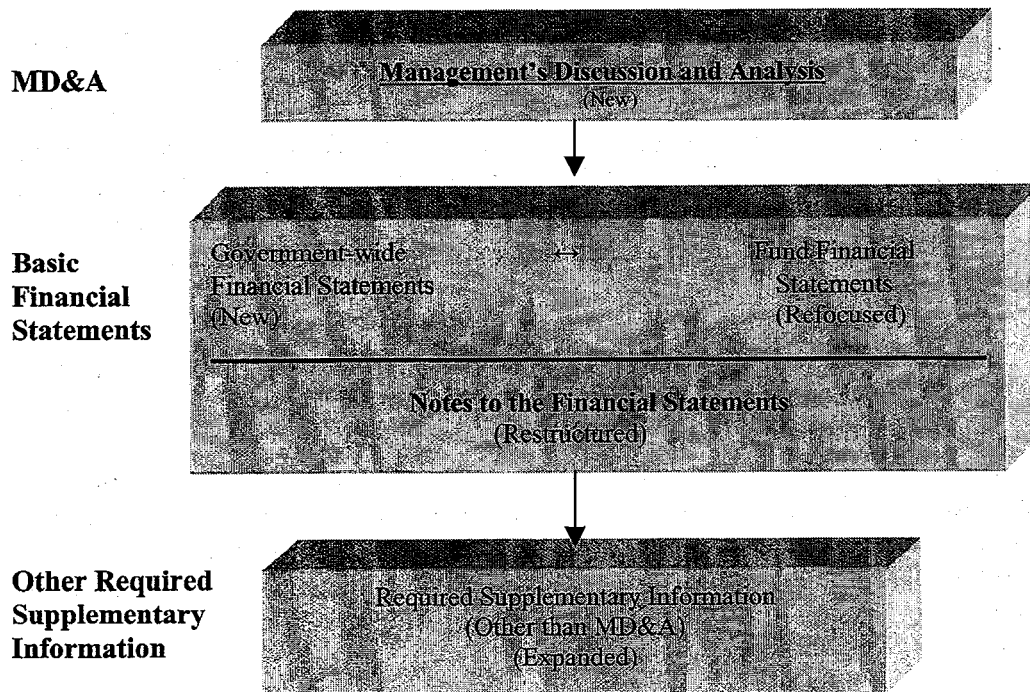
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project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

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

USING THIS ANNUAL REPORT

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**



Management's Discussion and Analysis

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

Government-Wide Financial Statements

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

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

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

Fund Financial Statements

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

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

Governmental Fund Types:

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

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

Proprietary Fund Types:

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

Notes to the Financial Statements

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

Infrastructure Assets

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

Budgetary Comparisons

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

FINANCIAL ANALYSIS OF THE NMFA AS A WHOLE

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

Table 1
The NMFA Statement of Net Assets

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

Statement of Activities: (Table 2).

Revenue

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

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

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

Table 2
NMFA Statement of Activities

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

Expenditures

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

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

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

Budgetary Highlights

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

Table 3

Total of all Budgeted Program Funds

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

Capital Assets and Debt Administration

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

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

Long-Term Debt

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

Bond Ratings

The Authority's insured bond ratings are as follows:

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

The Authority's uninsured bond ratings are:

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

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

**NEW MEXICO FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2003**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

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

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

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

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

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

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

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

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

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

See Notes to Financial Statements.

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

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

Total fund balances - governmental funds
(Governmental funds statement of revenues, expenditures
and changes in fund balance) \$ (17,348,471)

Amounts reported for governmental activities in the
statement of net activities are different because

Issuance of bonds (24,900,000)

Bond debt service principal payments 28,608,600

Change from prior year in:

Amortization of bond issuance costs (25,078)

Amortization of net bond premium 16,951

Interest expense on long-term debt is recognized
when paid under the modified accrual basis of accounting 93,702

Interest receivable more than 60 days after year end
does not meet the criteria specified for measurable
and available under the modified accrual basis
of accounting. 2,448

Change in net assets of governmental activities
(Statement of activities) \$ (13,551,848)

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

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

See Notes to Financial Statements.

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

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

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

See Notes to Financial Statements.

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

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

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

See Notes to Financial Statements.

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

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**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 1. ORGANIZATION

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

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

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

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 1. ORGANIZATION (CONTINUED)

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

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

The Authority uses the following fund types:

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

interest on revenue or general obligation bonds issued by the State, if the proceeds will be deposited in the DWRLF; and, 5) to earn interest on the amounts deposited into the DWRLF. The Act states further that grants from the federal government or its agencies, allotted to New Mexico for capitalization of the DWRLF, shall be directly deposited into the DWRLF and the Authority shall maintain full authority for the operation of the DWRLF, in accordance with applicable federal and state law.

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

Interest is credited to the various programs based on the programs average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state 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 of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State or as otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Property, Furniture and Equipment. Property, furniture and equipment purchased or acquired at a value of \$1,000 or greater are capitalized. Property, furniture and equipment are stated at cost less accumulated depreciation. Furniture and equipment purchases with useful lives over one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years. In addition, furniture and equipment with lives of one year or less, and maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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

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

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

Unrestricted assets represent liquid assets.

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

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

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

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

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

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

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

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

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

NOTE 4. LOANS RECEIVABLE

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Public Project Revolving Loan Fund

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

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

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

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

Balance, beginning of year	\$ (819,658)
Provision for loan losses	<u>(39,498)</u>
Balance, end of year	<u>\$ (859,156)</u>

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 4. LOANS RECEIVABLE (CONTINUED)

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

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

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

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

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 5. SECURITIES

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

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

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

NOTE 6. DUE FROM/TO OTHER FUNDS AND TRANSFERS

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

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

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

NOTE 7. DUE FROM OTHER STATE AGENCIES

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

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

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

The Worker Compensation Financing Fund transferred \$403,439 in order to rebate excess debt service funds back to the entity.

The Insurance Department Financing Fund transferred \$1,800,000 in order to rebate excess debt service funds back to the entity.

The Administrative Fee Revenue Program Fund (TRIMS Project) transferred \$7,081,226 in order to rebate excess debt service funds back to the entity. The bond issue related to this fund is paid off in fiscal year 2003.

The Metro Court Financing Fund transferred \$1,760,229 in order to rebate excess debt service funds back to the entity. Additionally, \$18,438,949 was transferred to the Metro Court Administrator for the construction and equipping of the new Bernalillo County Metropolitan Court Building, and \$3,879,800 in state legislated funds was transferred to the entity.

The State Building Purchase Fund transferred \$8,044,022 to the State of New Mexico general fund in order to rebate excess debt service funds collected.

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

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

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

NOTE 9. CAPITAL ASSETS

The capital asset activity for the year is as follows:

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

There are no capital assets in the governmental funds.

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

NOTE 10. BONDS PAYABLE

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

Public Project Revolving Funds.

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 10. BONDS PAYABLE (CONTINUED)

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

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 10. BONDS PAYABLE (CONTINUED)

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

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 10. BONDS PAYABLE (CONTINUED)

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

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 10. BONDS PAYABLE (CONTINUED)

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

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 10. BONDS PAYABLE (CONTINUED)

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 10. BONDS PAYABLE (CONTINUED)

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

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

**NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003**

NOTE 10. BONDS PAYABLE (CONTINUED)

The requirements to amortize the bonds outstanding are as follows:

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

The bonds payable activity for the year is as follows:

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

NOTE 11. OPERATING LEASES

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

Year Ending June 30	
2004	\$ 131,649
2005	97,479
2006	7,525
	<u>\$ 236,653</u>

**NEW MEXICO FINANCE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003**

NOTE 12. RETIREMENT PLAN

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

NOTE 13. CONTINGENCIES

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

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

NOTE 14. COMPENSATED ABSENCES

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

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 15. SUBSEQUENT EVENTS

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

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

NEW MEXICO FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 15. SUBSEQUENT EVENTS (CONTINUED)

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

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

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

See Notes to Financial Statements.

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

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

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

See Notes to Financial Statements.

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

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

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

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

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

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B. FUNDS PASSED THROUGH TO SUBRECIPIENTS

Federal expenditures include funds passed through to subrecipients as follows:

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

NOTE C. LOANS FUNDED

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

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

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
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ALBUQUERQUE, NM 87110

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

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

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

Compliance

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

Internal Control Over Financial Reporting

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

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

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

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

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

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

NEFF + RICCI LLP

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

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

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

Compliance

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

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

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

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

Internal Control Over Compliance

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

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

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

Neff + Ricci LLP

Albuquerque, New Mexico
October 10, 2003

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

Comment

Current Status

02-1 Water/Waste Water Project Grant Fund
Unauthorized Signatures

Resolved

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

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general-purpose financial statements of the New Mexico Finance Authority (Authority).
2. Two reportable conditions were disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for the Authority.
7. The program tested as a major program is:

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

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Authority was determined to be a low-risk auditee.

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

B. FINDINGS-FINANCIAL STATEMENT AUDIT

03-1 Information System Security Policy

Condition

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

Criteria

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

Effect

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

Cause

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

Recommendation

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

Management's Response

Management will draft and implement the additional recommended policies.

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

B. FINDINGS-FINANCIAL STATEMENT AUDIT (CONTINUED)

03-2 Information System Disaster Recovery Plan

Condition

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

Criteria

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

Effect

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

Cause

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

Recommendation

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

Management's Response

Management will draft and implement the additional recommended policies.

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

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

None

**NEW MEXICO FINANCE AUTHORITY
EXIT CONFERENCE
June 30, 2003**

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

New Mexico Finance Authority Personnel

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

Neff + Ricci LLP Personnel

Larry Carmony, Partner
Scott Eliason, Senior Manager

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